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WINTER 1957

THE BUSINESS QUARTERLY

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Published in London, Canada by
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VOLUME XXII NUMBER 4

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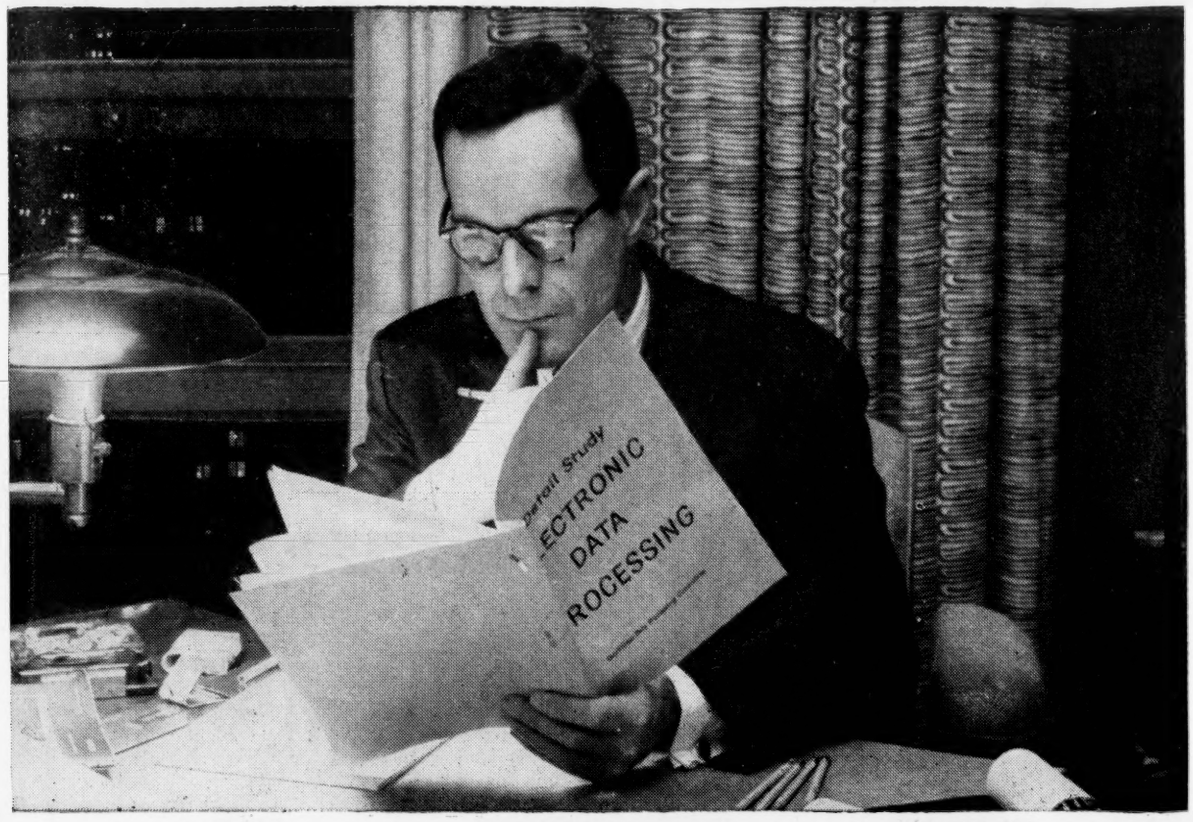

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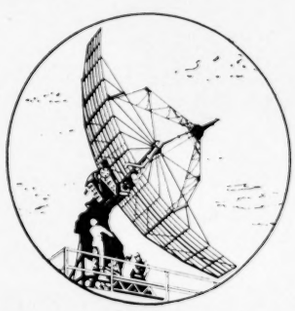

radar

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THE
BUSINESS
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VOLUME XXII
NUMBER 4

WINTER
1957

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Published by—
The School of Business Administration,
University of Western Ontario,
London, Canada.

The views and opinions herein expressed are those of the several authors and do not represent an official opinion of *The Business Quarterly* or the University of Western Ontario.

Manuscripts and correspondence concerning articles should be addressed to the Editor.

A consolidated index of subjects and authors was published for the first 20 volumes in Vol. XX, No. 4. The contents are currently indexed by the Canadian Index, Ottawa, the Public Affairs Information Service, New York, and "Management's Documentation Review", Documation Inc., Woodbury, N.J.

Subscriptions — Single copy, $1.50; One year, $5.00; Three years, $9.50.

Advertising Rates — Furnished by the Business Manager upon request.

All correspondence concerning subscriptions and advertising should be addressed to:
The Business Quarterly,
School of Business Administration
University of Western Ontario,
London, Canada.

Printed by—
Hunter Printing London Limited,
226 King Street, London, Canada

Authorized as second class mail, Post Office Department, Ottawa, Canada

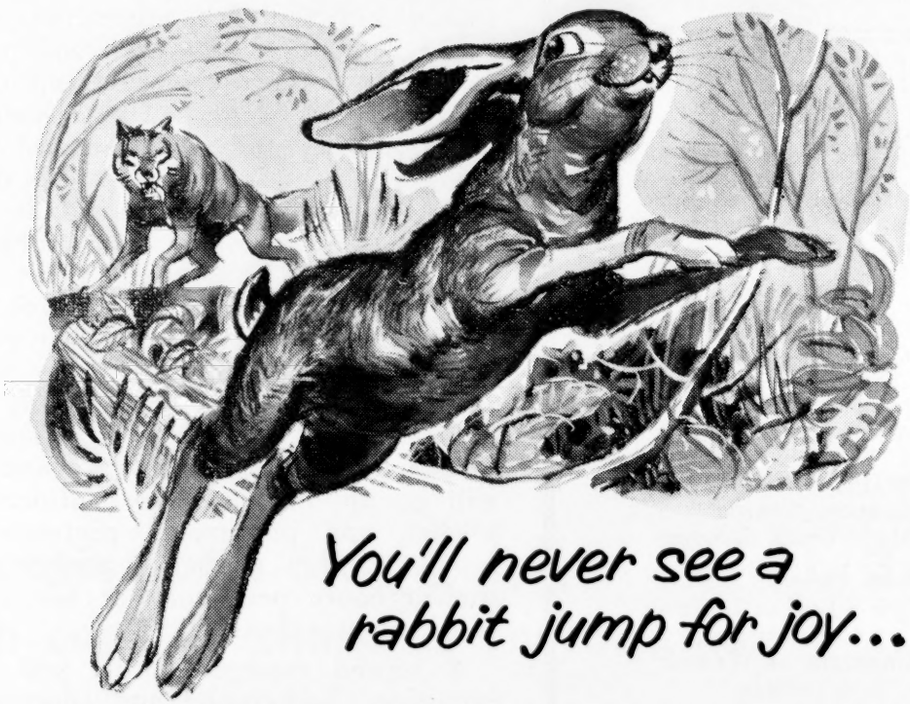
Editorial . . .

The more businessmen who feel like Imperial Oil's President, Jack White, that teaching is their business and that they can still learn from a close association with Canada's universities, the better for both businessmen and professors. An example of how one can help the other is the poll of executive intentions and opinion conducted by Western each fall and published in this Winter issue. Despite price falls of stocks and commodities, Canadian businessmen continue confident that in 1958 production and sales will both be up on 1957, though with costs—particularly labour costs per unit — still edging higher, profits are as likely as not to be pared. University expenditures both on capital and staff expansion will go up, one can also confidently predict, and presumably professorial productivity — if such a statistic as student/hours per professor has any value—must also rise.

A second example is the poll of executives' background and education and their opinions about what these should be. These results are also published in this issue.

Another example of generous business co-operation with learning is the new Richard Ivey Building officially opened late in October for the School of Business Administration by the University Chancellor whose name it bears. Such an environment not only encourages greater pride and effort in present students but also encourages future students and their parents, so that an ever-increasing flow of the brightest brains is insured.

This interest in education by present-day business vividly illustrates the revolution in business since the Great Depression. Business today is looking ever farther ahead; and as up-pointed by Dean Teele in this issue, by Gordon Huson in "Business and Government Administration", and by philosopher John Locke over 200 years ago, individual business interests and the social interest are identical, if only they look far enough ahead.



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Letters to the Editor . . .

Foreign Control of Canadian Business

Professor Huson deserves credit for having delineated so clearly a problem which has confused many of us and about which there has been much loose talk. Foreign capital has done much for Canada, but it might be just as well to keep an eye on this economic monster to see how he is going to behave—timeo danaos et dona ferentes.

Stating the problem with clarity is the first, and frequently the most important, part of the solution.

Peter V. V. Betts
London, Canada

You Canadian guys should worry! American investors have poured into Canada capital, know-how and management and still you grumble. Surely the question of American investment is the simple one that you have not the dollars to expand on anything like the present scale without it.

Bob Vocek
Minneapolis

Wheat Pricing—Free or Fixed?

Teaching law by the case method—yes. Teaching business administration by the case method—possibly. But surely here you are venturing into a new field of teaching public policy and politics by case discussion. This is a novel experiment and I wonder whether you have been successful?

David Graham
Ottawa

Canada's Model Workmen's Insurance

At the bottom of page 295 my article inadvertently omitted the word "average". "A workman is paid compensation based on 75% of his *average* weekly earnings in the four weeks . . ."

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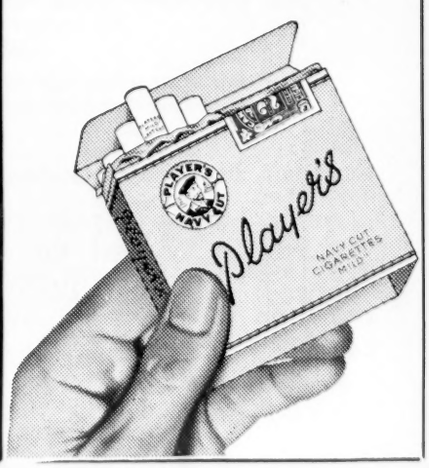

About Our Authors

John R. White, president of Imperial Oil and chairman of the School of Business Administration committee, was born in London, Ontario and graduated in mechanical engineering at Toronto in 1931. He reached his present position via London Rolling Mills Ltd., Imperial Oil, Sarnia, Standard Oil Company of Venezuela and Creole Petroleum Corporation.

□

Stanley F. Teele is Dean of the Harvard Graduate School of Business. Except for three years in business and his wartime service with the War Production Board in Washington, he has been on the faculty at Harvard since 1931. His previous article on business education appeared in the Business Quarterly in Fall 1950.

□

Prewar assistant financial editor of the News Chronicle and correspondent of The Economist in London, England, postwar director of U.K. Information Services in Canada, **Gordon Huson** combines editing the Business Quarterly with teaching international trade, business forecasting and investment management. He studied at London and Paris universities and is a barrister-at-law.

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ABOUT OUR AUTHORS - *Cont.*

John P. K. van Gigch, P.Eng., came originally from Argentina to Canada in 1948. He obtained his B.A.Sc. at Toronto in 1952 and is presently a graduate student at the School of Business Administration.

□

Isabel Atkinson, national president of the Canadian Association of Consumers since 1956, has been with the Association since its formation ten years ago, and came to the Ottawa head office via the presidency of the Saskatchewan branch. Coming from England to the New England states and then to Saskatchewan, she was an accountant and held a responsible position in business there. Miss Atkinson financed a trip round the world by writing articles on housing and social problems for several Canadian newspapers.

□

Frances Oxley, already well known to readers of the Business Quarterly, for her reports on previous executive polls, studied at Western, Indiana and Queens Universities. Formerly Director of Research at U.W.O., she is now director of female personnel at Polymer Corporation, Sarnia.

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CANADIAN TAXATION — and the businessman

K. W. Lemon, F.C.A.

AS has been pointed out by the courts in several recent cases, The Canadian Income Tax Act does not contain any specific provisions permitting the deduction of repair costs from taxable income. In order to qualify for deduction, therefore, a repair item must not only be brought within the broad scope of expenditures incurred to earn income but also must not fall within any of the specific excluding provisions of the Act, particularly the provision which denies a deduction in respect of capital expenditures. This situation creates no difficulty in the case of minor recurring repairs but it has given rise to serious problems in connection with major repairs which result in the complete replacement of a significant part of a capital asset.

Until quite recently Canadian tax practice appeared to be paralelling normal business treatment and some body of precedent was accumulated through decisions of The Income Tax Appeal Board which, following earlier rulings of British courts, held that the replacement of a part of a capital asset for the purpose of merely restoring the whole asset to its original efficiency represented a repair and as such was properly deductible from income. Cases decided by the Appeal Board on this basis include:

(a) The owner of an apartment building who was permitted to deduct the cost of replacing worn-out heating pipes.

(b) A tugboat company which was allowed a deduction in respect of the cost of replacing the engine in one of its boats.

(c) Another apartment house owner who was allowed a deduction in respect of the cost of individual electric refrigerators purchased to replace a previous central refrigeration system which had ceased to operate efficiently.

More recently, however, The Exchequer Court overruled earlier Appeal Board decisions. In these cases the Court:

(a) Reversed the decision of the Board in the tugboat case referred to above and ruled that the cost of the new engine was capital expenditure and as such was not deductible, and

(b) Held that a construction company was not entitled to deduct the cost of replacing the engine in a power shovel.

These decisions appear to establish that the replacement of worn-out parts may be deducted from income only if the part replaced is not in itself a complete asset (i.e. an engine); that a replacement may be deducted from income only if it is relatively small in relation to the value of the total asset to which it is attached; and that since the Income Tax Act provides for the amortization of capital expenditures through

capital cost allowances, no other outlay of a capital nature should be deductible from income.

Cause for Concern

These recent decisions are of serious concern to the business man not only because they represent a further widening of the gap between tax law and sound business practice but more specifically because the doctrine which establishes as capital expenditure the replacement of an integral part of a larger asset is capable of dangerous extension. For example, if the replacement of an engine in a power shovel is a capital outlay, it is but a short step until the replacement of a chimney, a roof, a furnace or even a doorknob is also a capital expenditure.

It should be recognized also that because of the inclusive nature of certain asset classes established for capital cost purposes, the suggestion that capital expenditures should be deductible from income only through amortization is not entirely realistic. The present regulations provide the same depreciation rates for certain assets and all of their component parts without regard to the fact that certain of the components may have to be replaced several times during the useful lifetime of the more durable main asset. This is true in the case of marine engines which are subject to the same depreciation rate as the hulls in which they are installed and of heating systems, air-conditioning equipment, elevators, etc., which are classed for depreciation purposes with the building of which they form a part. In these circumstances, if all replacements are capitalized, a substantial portion of the cost of several successive replacements may remain unamortized at the end of the useful life of the whole asset.

Solution?

This problem, like many others arising under the Income Tax Act, results from the lack of a specific statutory statement of the intention of the lawmakers and the consequent necessity of judicial interpretation of the very general language of the Act. The solution, therefore, can lie only in the hands of Parliament.

Possible solutions which would be acceptable from a business standpoint include:

(a) Statutory entitlement to a deduction from income in respect of the replacement cost of any subsidiary part of a whole asset as long as the replacement does not increase the original value or extend the original useful life of the whole.

(b) The establishment of a separate capital cost class for such replacements together with an appropriate annual depreciation rate which would be higher than that permitted for the original complete asset.

(c) The provision of separate capital cost classes with appropriately higher depreciation rates for those component parts which normally have a shorter useful life than the more durable assets of which they form a part.

TEACHING is our business

J. R. White

Friday, 25 October 1957, Jack White, President of Imperial Oil and Chairman of the School of Business Administration Committee addressed a special luncheon in honour of the official opening of the new Richard Ivey Building of the School of Business Administration by the Chancellor of the University of Western Ontario, Dr. Richard Ivey, Q.C.

One of the most reassuring sights in a somewhat unsettled world is that of businessmen gathering together in the halls of learning or of learned men gathering in the marts of trade. These things are reassuring because they are signs of an integrated society, a world in which the specialized branches of the community know and respect each other's position and worth. This unity in our social fibre is very important today when there is conflict of a fundamental sort between two parts of the world. Although recent news reports might create such an impression, this conflict will not be settled by the launching of outerspace satellites or innerspace missiles. In essence, the conflict centres on the question of whether freedom of thought, freedom of worship, freedom of speech, freedom of commerce and freedom of enterprise can produce a better world and better people than the planned restrictionism of an authoritarian state. That is the basic issue of the 20th century, and it is not an issue that can be decided by arms.

Without wishing to pre-judge the outcome of this conflict, is it not reasonable to expect that the performance of the free world will be commensurate with the real degree of freedom which its institutions attain? Free competitive enterprise will only deliver its true potential so long as it is genuinely free, genuinely competitive and genuinely enterprising. Similarly, the institutions of free thought, free speech and free teaching are only as effective as they are genuinely free. The educational lion and the industrial lamb can contribute a very great

deal to each other's freedom. We have all been aware of the immense mutual contribution that can be made between education and industry, but we have not always carried it through to the point of concluding that, in sum, these two institutions of our society have in their hands the gift of mutual freedom.

Industry's Contributions

Industry can contribute to higher education in many ways. To begin with one of the less widely recognized contributions, business provides a wealth of action and experience which is the raw material of such branches of learning as engineering, business administration and sociology. If business served as nothing more than a guinea pig, a source of case history material, it would for this alone be of great value and stimulus to higher education.

Another important but seldom emphasized contribution of industry to education is through the counsel and assistance that industrial people can provide. At Western, for example, three advisory committees, two of them made up of business and industrial people, are assisting the university in the formation of policy and other matters. Business people, acting in every capacity in the universities—as chancellors, members of boards of governors, members of advisory groups or even as plain ordinary canvassers—are providing an invaluable liaison between the universities and the community. A university which lacks such assistance is severely handicapped. By any definition education involves a preparation for life, and unless a university is in close touch with contemporary living, contemporary problems and contemporary solutions it cannot adequately prepare its charges for the future. And because modern business encompasses such a wide segment of life, it is inevitably a major contact point for education.

Two Cents Worth

Finally, of course, there is the financial contribution which industry can make to education. In my opinion, this is a matter which has received more prominence but less thought than it deserves. It is quite true that industry supports a great deal of the burden of education. Approximately 50 percent of industry's profits go in corporate tax. Buried in the operating costs of industry are a variety of sales, excise and property taxes, many of which ultimely find their way into the income of education. The exact proportion of education's income which comes from corporate taxes is almost impossible to discover at the present time. But one of the first indexes of municipal financial health, and hence the financial health of elementary and secondary education, is the size of the business assessment in any given municipality.

Compared to the amount of corporation income that goes to education by way of taxation, the amount given in voluntary donations is

comparatively small. It is also a fairly small portion of Canada's education dollar. The total amount of money currently being spent in Canada on education is in the neighbourhood of $750 millions. The total charitable donations of Canadian business have been in the neighbourhood of one percent plus of corporation taxable profits. This would seem to indicate a current annual level of not less than $30 millions and probably not more than $50 millions. Even if the entire giving were channeled toward education (which is by no means the case) corporate donations would not account for more than five cents of education's income dollar. In actual fact, the probability is that corporate giving accounts for less than two percent of what the nation spends on education. In a somewhat literal way, industry is giving its "two cents worth" towards education.

Importance to Universities

When we come across such comparatively small amounts as this, we are always tempted to use the analogy of a very small tail on a very big dog. In this case, however, I would prefer to use the analogy of a very small rudder on a very big ship, because while in proportion corporate donations are extremely small, our two cents worth can be crucial to the shape and direction of educational progress. The reason for this is that corporate donations are to a large extent lumped in the higher education field. And because higher education absorbs approximately 10% of the education dollar, it is against this part of the spectrum, not the entire band, that the donations must be measured. Obviously, two cents out of 10 is a great deal more important than two cents out of a hundred. It is apparent to anyone acquainted with operating costs and revenues that this proportion could be the deciding factor as to whether higher education is to operate above or below its "break even" point.

But in addition to its comparative importance in the income picture of higher education, corporate giving is of vital importance for its quality. One of the most valuable characteristics of the industrial donation is that, in contrast with so much of the money received by the various levels of education, the corporate dollar is a non-political dollar. Government funds usually have to be distributed according to rigid formulae. The federal allowance of $16 millions, to quote one of a great many possible examples, is a case in point. It is allocated on a basis of straight nose counting without regard to the individual needs of the various provinces, or of the various universities within them. Education should be assured of some funds which do not have to fit into formulae of rigid equality in which political acceptability plays as important a part as academic need. The donations of corporations fall into the flexible category. A business corporation can allocate its giving in any way it pleases, without feeling that it has to treat all areas and all types of education on a strictly equal basis.

Viewed from the point of the university, dollars received from business can perform tasks which would probably not be taken care of in any other way. Business gifts, for example, can help a university to compensate for high educational costs in its neighbourhood—neither the capital nor the operating costs of educational institutions will be identical in all parts of Canada. Corporate giving can also launch universities on new projects which, no matter how worthy, might not be regarded as appropriate for governmental support.

Because corporate giving can be the critical factor in putting a university's income above the "break even" point and because corporate gifts can achieve purposes which other forms of revenue could not possibly achieve, the corporate gift has an importance in the higher educational sphere that is out of all proportion to its size. It can, in fact, be the decisive factor in determining whether a university is to succeed in reaching its own particular goal, is to have that margin which is necessary for it to fulfill the objectives which are in keeping with its own particular character and which help to distinguish it from all other universities in Canada or indeed in the world. Indeed, corporation giving has so important a role in higher education that it can substantially determine the level of academic freedom which is to be achieved. Certainly, corporate giving can spell the difference between the somewhat negative freedom to exist and the positive freedom aggressively to advance the frontiers of education generally and of the given institution in particular.

If you agree that the comparatively small proportion of total educational funds provided by corporate giving is of key importance, it follows as a corollary that there is a corresponding responsibility on industry to give intelligently and with discrimination, recognizing that business should use its flexibility and freedom of action to support projects which cannot be taken care of by the normal revenues of educational institutions.

Dividends from Universities

A major conference was held a little over a year ago in which the leaders of our educational institutions and a number of leading bussinessmen discussed the problem of finding sufficient engineering and technical manpower to maintain Canadian industry. The problem is not that of getting skilled help in the old-fashioned sense. We do not want people—from any level of education—who are mere extensions of the machines or plants they operate. We want people who can think, people who understand the philosophy as well as the mechanics of their particular occupation. Automation, insofar as it has been applied which is a great deal less than most people seem to think—is not working in the direction of breaking jobs down into more and more routine sub-jobs. Automation is putting sub-jobs back together again and is

calling for more skill and intelligence on the part of the operator rather than less.

Another reason why industry needs technical people who are educated as well as trained, is on sociological as against technological grounds. In this continent, in some contrast to the situtation across the Atlantic, the accountant, the engineer and the technician do not necessarily stay at their desks or drafting tables in the back office. They are to be found in the front offices and the board rooms. This is a most healthy situation and it encourages people to take up such careers as accounting and engineering who would otherwise not consider them. But it does have implications on the type of training which people in these courses get. If they are to go to the top it is clear that their university experience should include a lot more than the mere techniques of their trade, important though these are. Their university training should somehow include enough of the humanities for them to gain some theoretical ability and some historical perspective and in general some appreciation of the civilization of which they are a part.

Knowledge and Freedom

Over and above the manpower contribution which industry receives from the educational institutions of this country is the scientific contribution. A wide variety of research projects is now being carried on by Canadian universities and other institutions for business concerns. In many cases, these are jobs which could not possibly be performed in the laboratories of industry itself. Provided they are projects that are appropriate to the university doing them, they can be extremely constructive elements in the life of the university itself. Among other important contributions they attract to the universities people who are anxious to do research work as well as teach. Insofar as research projects of this nature enable industry to accomplish things which it would not be able to do on its own resources, the universities are making a vital contribution to industry.

But the really important contribution of higher education to business is in the realm of freedom. A university consists of two things. It is a school for training and educating students. It is also a community. This community consists of intelligent people—intellectuals if you like —who spend a major part of time discussing, thinking and writing—seeking truth in a wide variety of fields. Because they are disinterested, honest and intelligent, their opinions carry a weight in public opinion which is altogether disproportionate to their numbers. One might paraphrase by saying that statistically "their weight is as the weight of ten because their heart is pure."

Moreover, the academic thinker can undertake studies in fields related to business which are far more important, though perhaps less

urgent, than those which the analysts employed by business firms can undertake. As a result, the academic student of business affairs can often document his opinion and supply shades of viewpoint which are beyond the power of the operating businessman or industrialist. Because of this, the wisdom generated in the universities forms a wellspring of sanity in the community, a bulwark against excesses of any description.

Think what would happen to literary and academic freedom if the universities were not wedded to their support, or what would happen to freedom of enterprise if the universities were opposed to it. It will help you to realize how important they are in shaping the life of the free world. The universities have been—and must continue to be—one of the greatest sources of the spirit of freedom which has blessed our society. Freedom of Enterprise—which really means the right to do business on economic rather than political lines—might long ago have succumbed had it not been for the reasoned support that it has received from the universities.

That economic freedom must not be allowed to succumb is evident to all university people. That academic freedom must survive is evident to all the people in business and industry. Each group has the power to ensure the survival of the other—a sound foundation for a long and successful partnership.

Black Magic

". . . What government does not already have its hands full without reaching out into new fields? What government has so much foreign exchange that it can afford to bar a responsible foreign investor?

"There is no ideological argument here. Just common sense. No country ever achieved balanced economic growth without substantial help from the private entrepreneur — domestic and foreign. By not courting his help, governments in the less developed countries are simply increasing their already onerous burdens . . .

"The application of impartial standards of economic and financial worth are just as necessary in the administration of development aid as they are in the planning of domestic investment programs.

"In this respect, as well as for many other reasons, the very large increase in private foreign investment in the less developed countries over the past two years is very encouraging. Private investment is almost always less wasteful of talent and resources than is government investment. Private investors know from experience how much more than capital is needed to make the complicated machinery of development work. The technical and management skills they bring with them set an invaluable example in the techniques which can be used to keep waste at a minimum . . ."

—President Eugene R. Black, addressing the board of governors of the International Bank of Reconstruction and Development, September 23rd, 1957.

the goals of BUSINESS EDUCATION

Stanley F. Teele

Friday, 25 October 1957, after being admitted to the degree of Doctor of Laws, Dr. Stanley F. Teele, Dean of the Harvard Graduate School of Business Administration, addressed the Fall Convocation of the University of Western Ontario.

ON behalf of the organized university business schools of the United States, the American Association of Collegiate Schools of Business, as its most recent past president, I have the special pleasure of bringing you cordial greetings from the Executive Committee of the Association and warm good wishes for growing success in your work at Western.

Almost precisely seven years ago you graciously invited me to speak at the graduation of your Management Training Program class. It is sometimes painful to reread one's earlier speeches, but happily this was not the case as I reviewed my comments and predictions here in London seven years ago. Tempting as it is to summarize those predictions today, I shall not do so. Instead I shall repeat only one thought from my earlier visit which has to do with the relationship between our two countries.

Canadians typically know a great deal more about the United States than we know about Canada. There is abroad in the United States a highly romantic set of ideas about the great friendship between the two countries. There is a vague impression that the 3,000 miles of undefended border and the accompanying friendly relationships happened automatically, and were the inevitable consequence of a common language and a common origin. Yet the histories of the United States and Canada make it abundantly clear that the present relationships did not develop automatically. Indeed they came about only after many years of severe conflict, and they came about as the result of the strenuous and determined efforts of a relatively small number of leaders on each side of the border.

Mutual Contributions

In a small, but none the less important, way the relationships between the educational institutions of the two countries have surely contributed to this improving understanding. Not only have students freely crossed the borders, but so also have educational ideas. We at the Harvard Business School have been pleased indeed to have the opportunity to work as closely as we have with you at Western. We have gained much from this association as indeed we have from all our associations with Canadian educational institutions. I believe that we, therefore, share with you your pleasure at this new Richard B. Ivey building. The pleasure in the physical facilities is enhanced by the circumstances of its becoming available. It is a truly happy omen that this building should bear the name of one who has combined in his own person the talents both of the law and of business. The wide range of his interests in the business world has been matched by the intensity of his concern for the welfare of the University of Western Ontario in general, and of its business school in particular. We can join in the hope and expectation that the combination of private initiative and public responsibility which this man exemplified will govern the attitude of all those who will use this new building.

As this beautiful building comes into use it is perhaps well for us to think for a moment about the most fundamental of the goals which should be sought within it. We should hope that within this building there will occur true education. To me true education is that education which permits the individual, as he comes toward the end of his road, to have a real sense of satisfaction, to have a sense that, although he has stumbled and erred, he has had, on balance, a life of real significance.

Education in these terms for those who contemplate careers in business management has been well spelled out by Mr. J. Muir, Chairman and President of the Royal Bank of Canada, who recently wrote these words in the Bank's Monthly Letter:

> By education I do not mean learning for learning's sake, but education to train the mind to think, to reason, to explore, and above all to continue to educate itself so that there will be created a well of knowledge from which to draw not only inspiration but the technique of performance and production. Those who have been taught that one must think, read and relentlessly pursue the quest of knowledge and that knowledge is largely useless unless applied are fortunate men and women.

With Mr. Muir, let me emphasize that the goal for the use of this building cannot be the completion of some established course of in-

struction but rather the successful launching of young people on a voyage of education of this sort.

Competence as Business Managers

Now what should be the major subdivisions in this educational effort? I think there are three. In the first place the educational effort here should put the student on the road toward competence as a business manager. In the second place it should put him on the road toward accepting fully and freely the growing responsibilities of a business manager both within and without the individual business organization. And thirdly, it should contribute to his developing a satisfactory set of ultimate values which will, as time passes, continuously guide him in relating his actions to his goals.

May I expand briefly on each one of these aims. First, as to competence as a business manager. There are obviously many ways to describe an effective manager and to catalogue the qualities and skills which characterize him. Let me remind you that the Oxford Universal Dictionary defines "to manage" as "to control the course of affairs by one's own action." From my observation the most important elements in controlling the course of affairs by one's own action are the ability to make wise decisions, the ability to work with people effectively toward a common purpose, and the ability to call upon a body of technical and specialized knowledge at the appropriate time and in the appropriate way. In thinking about the fundamentals of the task of the business manager I have often observed that it calls for a compound of knowledge and wisdom, using wisdom in the dictionary sense of "the capacity of judging soundly and dealing broadly with the facts."

Similarly, it has seemed to me important to keep constantly in our minds the thought that business management is a combination of art and science. We are necessarily and properly paying more and more attention to the science component today, with newly developing concepts in mathematics and statistics leading the way; but we do ourselves a disservice, if we forget that, even with this development, business management remains overwhelmingly a skill which can best be developed, as with the arts, by practice under guidance.

Responsibilities

The business manager should not only be competent; he should also be responsible. In our common North American society, business and, therefore, business managers, occupy a central position. We are often described as an industrial society, frequently with considerable scorn and distress. This society has however, particularly during the

last 50 years, produced results unimagined in earlier periods of the world's history and without comparison elsewhere today. If you examine measures of total production, of the wide distribution of the product of industry, of the reduction in the average hours of work; if you look at such factors as improved longevity, health and physical well being, or economic mobility, it is difficult indeed to exaggerate the extent of our progress. So far as North America goes the event has proved—or made—the predictions of Karl Marx completely wrong.

There have been many factors in this perhaps astonishing accomplishment. Natural resources, political concepts, the pressure of organized labor, technical advances—all these and others have surely been important. Similarly the generally pragmatic approach of our men of affairs has played a part. Not long ago I made a speech on the theme, "Blessed are the Pragmatists" to dramatize my respect for those who in economic and political affairs do not permit preconceived ideas to prevent them from asking the twin questions: What objectives need to be accomplished and what is the best way to reach them?

All these elements have been important, but there is another which we have tended to overlook: the rise of the professional manager, the man who feels a sense of responsibility to all elements in the business society, who can and does take a long-range point of view, who can and does recognize the need to strike a balance among stockholders, employees, customers, suppliers and the public generally. Even more importantly, the rise of the professional manager gives assurance that the direction of affairs will be in the hands of the competent and will not be determined solely by inheritance.

So much has already been accomplished that the rapid and drastic changes of the future will clearly require this sense of responsibility on the part of business managers to even greater degree.

Ultimate Values

Finally, I come to my third and last goal the development of a set of ultimate values. The question here involved is "Does a school of business administration, devoted to the task of preparing men and women to be the managers of our economy, have the responsibility to help its students in their search for ultimate values?" My answer to this query is a firm "Yes". I believe that we do have in that responsibility. I believe that we should encourage men to engage in that necessary, disturbing, even painful task. More than that, I believe we should provide an opportunity for men to consider alternative values in an orderly planned fashion, to reason and feel about them, and to test them, with the hope and assumption that they will reach some tentative conclusions.

Why is this any of our concern? Why should we not leave this to the church, to a man's own reading and study? It is because business is intertwined with our whole society. It cannot be isolated or considered alone. It is not meaningful or explicable apart from the social, political, and cultural framework within which it operates. The search for the ultimate values in our day must include the search for those values in the business community. Furthermore, a man's personal philosophy, his way of looking at the world and the men and women around him determine his success as a manager of things and people more than any other single factor. His basic attitudes are far more significant than the techniques he uses. As we have learned more and more about business organization as a social unit, we have become increasingly certain that the executive's skill with people—or the lack of it—is the determining element in his long-range success or failure. As we look ahead, we have reason to believe that this will be increasingly true. In short, the time may come when an evil man or one who has no clear sense of values simply cannot be an effective administrator.

It will be obvious that these three are high goals. In a sense they are truly impossible goals. This I mean them to be. Nineteen hundred and fifty-eight will mark the fifieth anniversary of the establishment of the Harvard Business School. In consequence I have been examining many features of our early history including the baccalaureate sermon given on June 19, 1910 by President A. Lawrence Lowell at the graduation from the Business School of our first tiny class. He said in part, "If by success in life we mean attaining the goal of ambition, then success comes only to those whose standards are low; for the higher a man's standard, the more lofty his aim, the farther will he always be from reaching it. What gives life its value is not the accomplishment of something, a result that is moderately good, but the effort to do something as well as it can be done, and the man who strives for that will go much farther than he who fixes his gaze upon a lower point. But you will say, 'If a man sets his hopes beyond what he can attain, he can never be happy, because he can never have the satisfaction of reaching it.' Let us not deceive ourselves. If the pursuit of happiness is one of the rights of man, it is in itself the least remunerative of occupations. Happiness is not found by hunting it but in the course of a search for something else." I can think of no finer wish for those who lead this institution and for those who will be a part of it than a continuous recognition of this truth.

U.S. v. US?

Two years ago the growth of a nationalistic attitude in Canada was spurred by certain U.S. actions, sudden embargos on Canadian farm products, arbitrary methods employed by international unions towards Canadian locals, and other similarly overt actions. Canadian business leaders were also becoming uncomfortable but from less easily understood causes. *Two years ago* actual responses included a sharp stiffening in the Canadian Government attitude (stiffer than was publicized) and Canadian labour elected a nationalist Claude Jodoin to be President of the T.L.C. and later of the C.L.C.

Today, on the other hand, to a layman at least, there seems to be a lot of double-talk on the subject—Canadian leaders repeating almost 'ad nauseam' — "We fully realize that Canada's present and future prosperity depends largely on the American capital being invested in this country . . . but . . ." And again to to our American friends—"We need you, we want you, we love you . . . but . . ."

What thoughts are we trying to convey by the use of the word *'but'*. Who ever heard of a girl sticking around very long when the boy friend will only say "I love you but . . ."? And can we expect that sensitive coward "international capital" to ignore the implications of the word forever?

Are we asking our American friends to invest their money in Canada as needed *but* to give us control over their Canadian operations? What kind of control would satisfy us? For how long? Are we trying to have our cake and eat it too? Are we vaguely hoping that our American friends will be understanding enough first to know what we want and second to be kind enough to give it up to us. I married an American so I know how understanding and kind they are but believe me there are limits!

What are we really frightened about? Is it a significant control by Americans over Canada's economy to be followed perhaps by political control? Is it the competition from U.S. branches having greater financial resources? Is it the development of political pressures here which might cause us to do foolish things and so scare U.S. and other capital away?

If these Canadian desires and fears (whatever they may be) are left for study and solution in the hands of the two business communities, satisfactory solutions will be found; but the public is aware, uneasy and puzzled by the double-talk going on.

Time may be running out. Last spring at more than one hundred small meetings attended by lower income and professional groups, I was invariably asked: "What are you going to do about all this American money coming into Canada? If it keeps up they'll own and run everything in the country."

How to allay these vague fears before they force political action must be thought out by business if we are to avoid the economic headaches of nationalism.

—*Musings by Hugh Mackenzie.*

FOREIGN CONTROL
of
CANADIAN BUSINESS
(Part II)

Gordon Huson

Canadians have recently become increasingly critical of foreign companies in Canada, of both their number and their actions. It is not only because there are so many, although as suggested in a previous article[1] *this is important. Too many people may cram into the football game and the bleachers collapse; but if even the normally safe number start rocking and rolling, the bleachers may well collapse too. Some Canadians have suggested that foreign subsidiaries have been rocking and rolling. Surely in return for their huge contribution to Canada's economic progress, foreign subsidiaries are entitled to know how Canadians would like them to behave.*

BY what criterion should we in Canada judge the goodness or badness of a foreign-owned company? By its readiness to answer governmental inquiries, the civil servant might say. By its willingness to sell its common shares to the public, says the investment dealer. By its borrowings from Canadian banks, says the banker. By its cooperativeness in publishing accounts, says the Gordon Commission. By its leadership in paying high wages, says the union organizer. By its record exports, says the statistician. By its contributions to scholarships and universities, says the professor. By the participation of its officers in

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[1]Business Quarterly, XXII, No. 3, Fall, 1957.

the life of the local community, says the local mayor. By its record profits, says the tax collector. By its lower prices and better service, says the Canadian consumer.

A company may get bottom marks from both professor and investment dealer, yet top grades from consumer and tax collector. Which is right? Is it alright for Canada's petroleum to be foreign controlled, but disastrous if one of Canada's insurance companies sells out to foreign interests? If a foreign subsidiary should boost exports from Canada by pricing Canadian raw materials below market rates, these increased exports might be of great benefit to Canada in a time of heavy overseas lending as in 1947, but the reduced local profits might well dismay the tax collector, the local mayor, the professor and the union organizer; and in 1957 a continuation of such a policy of using Canadian resources where they produced little net profit in Canada would be wrong, the economist would argue, because it encouraged inflation by adding demands which were non-profitable for the limited supplies of Canadian resources; yet, in 1967, such a policy might be justified in the eyes of the labour union because only at cut prices could production employment be maintained in Canada.

"If U.S. private enterprises abroad are managed in such a way that the host countries are convinced they are all promoting their economic and social development, then it is most likely they will receive the cooperation essential to long-run survival," the National Planning Association has reiterated in six excellent studies of U.S. investment abroad[2]. But what is the way to manage a subsidiary in Canada so that Canadians are convinced their own economic and social development are being promoted?

Gordon Commission Recommendations

The Preliminary Report of the Royal Commission on Canada's Economic Prospects, usually called the Gordon Commission, was specific:

> "The larger Canadian subsidiaries should sell an appreciable interest (perhaps 20% to 25%) in their equity stock to Canadian investors and should include on their boards of directors a number of independent Canadians.
>
> "Wherever possible, they should employ Canadians in senior management and technical positions, should retain Canadian

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[2] i. Sears, Roebuck de Mexico, S.A. May 1953.
ii. Casa Grace in Peru, November 1954.
iii. The Philippine American Life Insurance Company, March 1955.
iv. The Creole Petroleum Corporation in Venezuela, December 1955.
v. The Firestone Operations in Liberia, December 1956.
vi. Stanvac in Indonesia, May 1957.

engineering and other professional and service personnel and should do their purchasing of supplies, materials and equipment in this country.

"They should publish their financial statements and make full disclosure therein of their Canadian operations."

Selling a Share

Are these recommendations right and reasonable? First, should the larger foreign subsidiaries sell a minority interest to Canadians? When the Gordon Commission suggested this, the Chicago Tribune, well knowing that these were zero, mischievously asked about foreign shares in Brazilian Traction and Ford of Canada's overseas operations.

To their managers, there are good reasons why less than one in ten of the large foreign subsidiaries operating in Canada comply with the Gordon Commission recommendation, and why in the post-war period they have been moving in the contrary direction and buying out Canadian minority interests. With 100% ownership and control and without the additional worry of minority interests, management can concentrate on maximizing profits from an integrated global operation, switching men, capital and production to wherever they can be most effective. Secondly, management is in a stronger position in negotiations with labour unions, when no figures of profits have been published. Thirdly, accounting costs can be saved when detailed local accounts allocating engineering and management costs are avoided. Fourthly, local capital costs more, is often not available and certainly not so readily obtainable as from the parent's resources.

Also from the viewpoint of the Canadian investor, the lot of a minority shareholder has not always been a happy one. Consequently, to tempt his money into a foreign controlled operation, he may have to be offered a better return than either he would be willing to accept from an all-Canadian enterprise, or his foreign colleague is prepared to accept. There have been sufficient examples to make the Canadian cautious. In July 1956, Canadians were offered 270,000 ordinary shares out of a total of 7,446,550 of Crown Zellerbach Canada Limited at a price of $25.00 a share; the price has never subsequently reached that figure. The shares of Canadian Chemical and Cellulose have declined each year from their issue price of $15.50. And the story of Montreal Locomotive is not altogether happy, with its special dividend of $9.00 per share in March, 1955, followed by the resignation of several Canadian directors and the sale in November, 1955 of 250,000 shares formerly held by its U.S. parent, Alco Products Inc.

But the Gordon Commission did not make its recommendation purely for reasons of Canadian nationalism; there are also good economic and business reasons to support its opinions. Modern corporation chairmen, with good justification, traditionally advertise the advantages to

be gained both by company and community from the wide distribution of their shares amongst numerous shareholders. A wide dispersal of ownership gives more stability and a better market for its shares with little danger of raids from powerful bulls or bears. Secondly, this wide ownership also enables profits and losses to be more widely and consequently evenly distributed. Thirdly, the company gains in public appeal, each shareholder being a potential public relations officer. And fourthly, and possibly most important of all, the company can join the trend of modern capitalism, in which employees are more and more motivated by ownership in the companies in which they work through share purchase schemes, either as part of an annual bonus or as the supplement to a fixed pension so necessary in these days of inflation.

That the disadvantages both to management and investor of minority shareholdings do not preclude a subsidiary from the advantages of participation by Canadian investors and employees is, however, proved by certain companies which are outstanding examples of just such success. Ford of Canada, Imperial and B-A Oil are examples. Recently a Belgian-owned subsidiary, Canadian Petrofina, pointed another possibly better way. This subsidiary financed its operations partly by selling in Canada $25 million bonds and 8 million participating 6% noncumulative preferred shares at $10.00 each, and, partly by $20 million common stock 100% owned by the Belgian parent. The Canadian shareholders get 8 million votes, one vote for each $10 preferred share. The Belgian parent gets 20 million votes, one vote for each of its $1 ordinary shares but the Canadian investor is not only entitled to a preferential 6% on his money but also to participate along with the ordinary shareholder in any dividends paid to the ordinary shareholder above 6%.

Canadian Directors

How about the Gordon Commission's recommendation re directors? Canadians are already on many boards of directors, but in a minority, numbering roughly one in three. Admittedly, statistics here cannot properly reflect the actual situation. So much depends on personalities. A single-minded Canadian of strong character, determination and set purpose can convert a subsidiary 100% owned abroad and with a majority of foreigners on the board of directors into an independent Canadian company, but these are the exceptions.

Sometimes, Canadian boards are set up for purely legal reasons and have no operating functions. Sometimes they have to refer every matter of importance back to the board of directors of the parent company; sometimes the Canadian board is completely independent and encouraged to be so. Consequently, within the statistics are hidden a wide range of different practices.

As directors are appointed to a company by the shareholders primarily to represent their interests, it is difficult to see how a Canadian,

however determined, can remain independent when a company is 100% foreign owned. The mere appointing of Canadian figureheads as "yes" men onto boards of directors controlled abroad adds little benefit to the company or to Canadian prestige, dignity or power.

However, a company taking a long view ahead to a big future in Canada will require Canadian views represented permanently and forcefully on the board in order to ensure the best possible public relations. The implementation of the recommendation that the boards of directors of subsidiaries of foreign countries include a number of independent Canadians will therefore be advisable to any big foreign-owned subsidiary long before Canadians become owners of a block of stock, purely in its own long-term interest.

Canadian Management

A far higher proportion of the top management in foreign subsidiaries is Canadian—roughly one in two. Nearly all are now resident in Canada and some although not born here are now Canada's leading citizens. There are exceptions to every rule and certain companies in pharmaceuticals, chemicals, pulp and paper stand out like black sheep. But enlightened management has learnt that it is just bad business not to employ Canadians and just bad staff motivation not to promote Canadians to the top management and to delegate authority to them.

Against the Gordon Commission recommendations and as a reason for importing non-Canadian personnel, management has argued that "adequate numbers of trained Canadians were simply not available." This shortage might be partially explained by the refusal of Canadians to work for companies in which they feel that the top executive positions are reserved for nationals of the parent company. This thought undoubtedly influences university students selecting employers in the present scramble of personnel officers for each year's graduating class.

Some Canadian subsidiaries hold not only their directors' but also their executives' meetings outside Canada. An absentee landlord is never popular. A company would be well advised by its public relations and personnel chiefs to avoid such shortsighted actions which can only lead to its failure in Canada in the long run.

Sources of Supply

Foreign subsidiaries in Canada will generally insist strongly that it is their policy to buy supplies and services in the best and cheapest market with a general preference for things Canadian, unless the price differential is too high. "It is good business to buy from our chief customers."

Yet the force of habit weighs heavy on non-Canadian management and purchasing officers, to whom the consultants and suppliers used

by the parent are generally well known on a personal basis. All too often, purchasing officers come equipped with the list of the parent's suppliers and an abysmal ignorance of Canadian availabilities and supply sources.

Financial Statements and Company Charters

No financial information is available about at least one in four of Canada's leading foreign subsidiaries. Private companies in Canada, however big, do not have to publish accounts. The last of the Gordon Commission recommendations quoted above required foreign subsidiaries to publish their financial statements. Hitherto there has been no discrimination against foreigners and foreign companies in Canada. Laws and regulations affecting business and industry are exercised without reference to nationality (except that foreigners are excluded from coasting, commercial flying, radio broadcasting and certain types of commercial fishing and professional activity).

Surely our economies of the Western world are firmly based on the freedom for all to compete equally. Surely this excellent principle could and should be continued in Canada, notwithstanding the Gordon Commission recommendation of discrimination, if the Company Act were modified to suit these days of big business, so that *all* companies whether private or public, Canadian or foreign, with assets over $10 million were obliged to publish accounts. It is obviously in the public interest, and probably also their own, to do so. Profits earned by a company are a good indication of services to the Canadian consumer. To prevent splitting operations into several subsidiaries, each with assets less than $10 million and scattered into several provinces, these big companies should be required to operate under a single central federal charter.

Marketing Methods

The Gordon Commission could have added considerably to their suggested code of good conduct for subsidiaries in Canada. In business, selling is as important if not more important than buying. Yet far too many subsidiaries do not exploit the full market available. In raw material industries such as wood pulp, for example, the size of operations is often limited to a foreign parent's needs with little thought of the wider market potential of supplying other buyers either in Canada or in other countries. In manufacturing, more often than not the Canadian subsidiary is precluded from exporting by its parent.

Of big foreign subsidiaries in Canada, less than half have appointed Canadian export managers, less than one in four can be said to be developing Canadian export experience, only one in five have separate export organizations, and one in ten have their own independent foreign representatives. Only one in three claim freedom to compete with their parent, only one in four a voice in their company's export policy, and

three quarters declare that their exports from Canada are strictly controlled by the parent.

By far the majority have their exports channelled through another subsidiary of the parent—the international export division. Undoubtedly, the centralization of advertising and overseas representation leads to a wider penetration of world markets and, as a result, more orders for exports, but little, if any, of this larger flow of orders resulting from the greater scale of operations possible to an international export division flows to Canada. The international subsidiary allocates orders on a global basis, usually according to whichever plant can supply at the lowest c.i.f. price. Most decisions are based on the prices quoted by subsidiaries and rarely take into account plant utilization figures or the greater reduction of costs when export orders are added to a small-scale operation than when added to a vast operation. Furthermore, there is an undoubted preference for the products of the parent organization. Promotion prospects and proximity alone would justify this.

The statistics of trade between Canada and Latin America, showing sharp fluctuations from year to year, for example, in cars and tires, confirms that Canadian subsidiaries are generally only allowed to export when the international export division chooses to give them business to suit the convenience of the foreign parent and that they are undoubtedly handicapped by not having sales representatives overseas of their own. In times of shortage some business is turned to Canada but at other times the Canadian subsidiary does not get an equal opportunity.

Research

In addition to providing capital, management and markets, foreign investment in Canada has also been the cause of the rapid introduction of foreign research and know-how. This speedy flow into Canada of knowledge based on expensive research spread over several years in other countries has led to far more rapid progress in Canada than would otherwise have been possible.

Yet Canadians constantly complain that, because research facilities were originally located in the parent organization, there is less chance for research being done in Canada. Most parents permit complete access to the results of their research by subsidiaries either at no cost or for a negotiated fee, so, prima facie, there would be little advantage in the Canadian subsidiary attempting extensive and expensive independent research.

Statistics, especially those quoted by Dr. R. S. Jane of Shawinigan,[3] indicate that overall capital expenditures on research in Canada are far too low; in 1955, for example, per capita expenditures on research were $23.00 in the United States, $19.00 in the United Kingdom and only

[3]Chemical Week, October 6, 1956.

$5.00 in Canada. Foreign subsidiaries are, admittedly, bearing their full share of this small expenditure. A recently published D.B.S. Reference Paper shows that the 10 industries which account for over 90% of industrial research development expenditures are close to being precisely those referred to by the Gordon Commission as "foreign-dominated".

> "A breakdown of the total expenditures on research-development by industry reveals that Transportation Equipment, Electrical Apparatus and Supplies, and Chemical Products, far exceeded the expenditures in all other industries. In the Transportation Equipment industry, which includes the manufacture of aircraft, research-development costs totalled $16.5 million, slightly more than one quarter of the total of all industries. The cost of research-development conducted in the Electrical Apparatus and Supplies, and Chemical Products industries together accounted for an additional $18.6 million. Next in magnitude were Products of Petroleum and Coal, Non-Ferrous Metal Products, Paper Products, Iron and Steel Products, Mining, Rubber Products and the Transportation and Utilities industry. Together these 10 industries accounted for over 90% of the total cost of industrial research-development."[4]

But research expenditures are closely connected with bigness. It is essentially the big companies which can afford and, in fact, do research. If, therefore, the big companies are foreign-controlled, while the smaller ones are Canadian, it is only natural that the foreign-controlled bigger companies should do more of the research than the smaller Canadian ones. This is, in fact, what appears to be the present unsatisfactory situation for Canada. On a per capita basis and as a percentage of sales, foreign subsidiaries are not spending as much on research in Canada as do their parents at home.

Public Welfare Contributions

The increasingly long view taken by companies of their responsibilities in the community and the increasing importance of public relations have resulted in growing contributions from business to education, hospitals and charities. Although some subsidiaries are outstanding in this field of generosity, efforts to collect from subsidiaries in Canada are often brushed aside on the pretext that these matters are the exclusive domain of head office. An application to head office is generally ignored or refused on the plea that "charity begins at home".

Lobbying

The generous tariff protection allowed "goods of a kind made in Canada" is seldom sufficient in the eyes of the secondary producer. Any

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[4]Industrial Research-Development Expenditures in Canada, 1955, D.B.S. Reference Paper No. 75.

tariff reduction, even stretched over 12 years, as suggested by the British delegation to the Commonwealth Economic Conference at Mont Tremblant in 1957, is naturally denounced as disastrous. When, as in the United States, the producer is accustomed to enforce his view on government through lobbying and pressure groups, he naturally attempts when in Canada to do the same and to lobby the Canadian government to further his own interests. This is contrary to the Parliamentary tradition and also to the American tradition according to Dr. Sumner Slichter, who wrote in the New York Times Magazine in August 1957: "Americans should hold fast to their traditional views of the importance of vigorous competition in industry. This philosophy and the actual practice of vigorous competition have been unique and invaluable national assets which have contributed immensely to the progressiveness and efficiency of industry in the United States."

Exporting Unemployment

Xenophobia, hatred of the foreigner, has been a chronic human failing since the beginning of man. Malice has always been a first-class vote-getter, as Mossadegh, Nasser, Hitler and Governor Faubus of Arkansas all knew. Although not yet back to crying the 1911 election slogan, "No truck or trade with the Yankees," Canadians are naturally fearful that when the bulk of an industry is owned outside Canada, the foreign owner may not operate in Canada's best interests. Thus, when prices are sky-rocketting, we can easily be persuaded that foreign ownerships lead to inflation since their operations may be expanded, when inflation demands a contraction of activities; and unless on our guard, we are prepared, at the same time to accuse the foreigners for contracting activities and creating Canadian unemployment. The recent closing down of a manufacturing process in Canada because a U.S. parent found it had overproduced in U.S.A. and wished to export the surplus to Canada was recently criticized as "exporting unemployment to Canada" by the same issue of the same paper that was accusing foreign subsidiaries of being an inflationary influence.

If they value the goodwill of Canadians, foreign subsidiaries must apparently be careful not to move with the herd, not to expand when everyone is expanding nor contract when everyone is laying off staff. To be popular, they must be contra-cyclical.

Conclusion

This list of the ways in which foreign subsidiaries in Canada deviate from the desirable could be endlessly extended. There are at least 3,750 U.S. subsidiaries, 950 U.K. subsidiaries and 300 subsidiaries of other countries at present operating in Canada. Inevitably in 5,000 foreign subsidiaries there are some bad ones and some that do not know how to behave. Could it be because no one has suggested any accepted code of good conduct? In the belief that such is the case, a suggested code is published in the following article.

Research in Canada

In the absence of scientists, there could be no research; industrialization would slow down and become dependent on information from abroad, and material progress would suffer. The encouragement of young Canadians of high intellectual ability to become scientists is of the utmost importance to the country, and it is precisely in this field that the greatest degree of uncertainty exists.

According to the Department of Labour, half of the industrial firms co-operating in the survey reported a shortage of professional personnel, including scientists. Universities and government departments also reported shortages. In industry, of the firms reporting shortages, 28 per cent said that one of the results of the shortage was curtailment of development and research activity. Universities reported curtailment of research, and impairment of laboratory work. Governments reported delay in research projects. Altogether, employers covered by the survey estimated that their requirements for scientists would increase by an average annual rate of 9.8 per cent during 1957 and 1958 . . .

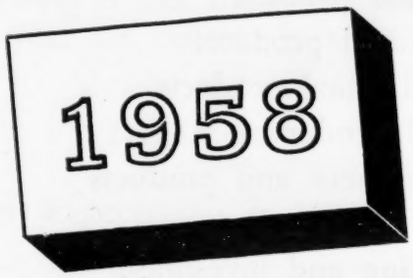
Two factors in recent years have helped to mitigate the worst effects of this shortage. In the first place, the proximity of the United States, and the research activities of parent organizations in that country, have lessened the immediate need for some industrial research in Canada. The second favourable factor has been the net immigration of scientists and engineers in recent years . . .

Although a continued inflow of scientists from abroad is necessary, not only to supplement the output from the universities but also to enrich and diversify scientific thinking in Canada, the basic need in years to come will be the expansion of the Canadian universities themselves, and an increase in the number of students in the scientific field without sacrifice of quality. The encouragement of sufficient new graduates with the highest intellectual ability to enter upon a research and teaching career is a necessary first step.

—*Canadian Bank of Commerce Commercial Letter, September 1957.*

BUSINESS PROSPECTS

in



John P. K. van Gigch

THE eighth annual poll of Canadian Executive Opinion by the School of Business Administration of the University of Western Ontario reveals that the general trend of business activity will at least remain at its present high level. Businessmen anticipate a mild slowdown until the spring but point out in general that sales, production and earnings for 1958 will be even higher than in 1957.

An effort was made this time to segregate the opinions according to the different industries polled. This method pinpoints the weaker areas in the economy.

Cross Section of Industries Polled

The proportion of large firms to medium sized and small firms polled this year was the same as in 1956. In 1957 the proportion of manufacturing to non-manufacturing firms was slightly altered—72% to 28% in 1956 and 78% to 22% in 1957. Table I indicates the total number of replies, the size of firm polled and their type.

TABLE I

Total Number of Replies, Size and Type of Industries Surveyed

		1956	*1957*
I	Total number of replies:	143	153
II	Size of Industries—		
	Large firms	54%	55%
	Medium sized and small	46%	45%
III	Type of firms		
	Manufacturing	72%	78%
	Non-manufacturing	28%	22%

TABLE II

Cross Section of Industries Polled

	Percentages
Pulp, paper and printing	13%
Food and kindred products	12
Chemicals and allied products	11
Iron and steel products	8
Electrical equipment and products	7
Textile and apparel	7
Finance, banking and investment	7
Machinery and transportation equipment	6
Trade, wholesale and retail	5
Petroleum and coal products	4
Transportation, storage and communications	4
Public utility operations	3
Service industries	3
Rubber products	2
Mining industry	2
Construction	2
Others	4
	100%

Table II demonstrates the cross section of the industries surveyed. Opinions obtained from industries which represent a greater percentage of the total sample are more significant than the opinions obtained from the industries whose sample is small. This fact was taken into account when studying the trends for the various industries. Unfortunately the construction industry was not represented by a high enough number of firms.

The Predictions

Consumer Price Index. In 1956, most businessmen were of the opinion that the Consumer Price Index would go up in 1957. At present they feel that the upsurge has been partially checked. Fifty per cent think the Consumer Price Index will increase in 1958 but 43% believe it will remain at the same level.

Wholesale Price Index. The majority are of the opinion that it will remain at the 1957 level.

Index of Industrial Employment and *Index of Industrial Production.* Last year, most executives polled stated that employment and production would go up in 1957. This year they anticipate that employment will remain steady at the 1957 level. For industrial production the cold statistics demonstrate that a plateau has been reached. Behind the statistics, the general feeling is that industrial production will decrease in the first half of the year but resume its upward trend later.

TABLE III

Executives' Expectations in 1957 and 1958

	1957			*1958*		
INDICES	*Increase* %	*Constant* %	*Decrease* %	*Increase* %	*Constant* %	*Decrease* %
Consumer Price Index	82	15	3	50	43	7
Wholesale Price Index of Industrial Materials	Not Polled			27	56	17
Index of Industrial Employment	53	41	5	14	54	32
Index of Industrial Production	67	28	5	13	56	31
Wages and Salaries of Industrial Workers	91	9	0	73	27	0
INDIVIDUAL COMPANIES						
Total Unit Sales	79	18	3	56	33	11
Total Physical Volume	79	17	4	61	26	13
Earnings Before Taxes	Not Polled			47	31	22
Production for Inventory	31	60	9	22	57	21
Orders for Raw Materials	Not Polled			52	33	15
Prices of Raw Material Purchases	Not Polled			37	51	12
Prices of Products	51	44	5	32	62	5
Average Labour Force	37	60	3	21	61	18
Number of Salesmen	43	57	0	34	66	0
Wages Paid	87	13	0	79	20	1
Advertising Expense	40	59	1	31	63	6
Capital Expenditures for Maintenance	30	54	16	23	54	23
Capital Expenditures for New Plant	36	31	33	27	36	37

Sales, Production and Earnings in Individual Firms

In terms of total sales and total production a majority of executives (60%) forecast that 1958 will be even more profitable. However this majority is not as great as it was last year (80%). Furthermore about 30% think that their sales and production will remain at the 1957 level and 10% think that they will decrease.

Fifty per cent of the executives are optimistic and predict an increase in their firm's earnings. About 30% see a levelling off at the present rate but 20% anticipate that earnings will actually decrease. Therefore, it would seem that there are some soft spots in the economy.

Wages, Prices and Labour Force

The upward surge in salaries and wages will not be as strong in 1958 as it was in 1957. A majority of 90% anticipated that the average wages and salaries of industrial workers and the wages paid in their own individual firms would go up in 1957. The majority predicting an increase in 1958 is only of about 75%. The other 25% think the average wage and wages paid in their firms will stabilize at their present level.

Increasing competition will prevent the upward trend in prices being general. More than half anticipate stable prices for the raw materials they purchase and stable prices for their own product. Thirty per cent foresee an increase. Last year the consensus was that a "definite upward trend in prices was underway".

The anticipated high level of economic activity will be reflected in the maintenance of the average labour force. This is the feeling of 60% of the polled executives. However the other 40% are divided half and half between an increase and a decrease.

The number of salesmen will remain the same as in 1957 as will the advertising effort of most individual firms.

Capital Expenditures for Maintenance and New Plant

In spite of the difficulties of securing capital and in spite of its cost, there will be no reduction in the expenditures for maintenance of the present plant. However there is evidence that 1958's investment in new plant will level off and decrease. In compiling the answers to the poll a slowdown in the rate of expansion is clearly noticeable. Some executives expressed some concern about the present level of expansion terming it "over-expansion".

Variations Between Industries

Table IV was compiled in an attempt to obtain predictions of sales, production and earnings for different industries. Although, overall and in general, most executives are optimistic that 1958 will be better or as good as 1957, disquieting signs have appeared in several industries.

Most firms in the *pulp and paper* and printing industry will see their production and sales increase. However only some will have higher earnings. This same condition of increased sales and output but of pared earnings will also be evident in the *food* and kindred products industry, in the *textile and apparel* industry, in the firms manufacturing *transport equipment* and in most service industries.

TABLE IV

Sales, Production and Earnings in the Polled Industries

	Sales and Production	*Earnings Before Taxes*
Pulp and paper and printing	Most to increase Some same as 1957 or to decrease	Some to increase Some same as 1957 Some to decrease
Food and kindred products	Most to increase Some same as 1957	Most to increase or same as 1957 Some to decrease
Chemicals and allied products	Most to increase Some same as 1957	Most to increase
Iron and steel products	Some to increase Some same as 1957 Some to decrease	Some to increase Most same as 1957 Some to decrease
Electrical equipment and products	Most to increase or same as 1957 Some to decrease	Most to increase Some same as 1957 or to decrease
Textile and apparel	Most to increase or same as 1957	Some to increase Some same as 1957 Some to decrease
Finance, banking and investment	Most to increase or same as 1957	Most to increase or same as 1957 Some to decrease
Machinery and transportation equipment	Most to increase or same as 1957 Some to decrease	Some to increase Most same as 1957
Trade: wholesale and retail	Most to increase or same as 1957 Some to decrease	Most to increase or same as 1957 Some to decrease
Petroleum and coal products	Most to increase	Most to increase
Transportation, storage and communications	Most to increase or same as 1957	Most to increase Some same as 1957
Public utility operations	All to increase	All to increase
Service industries	Most to increase Some same as 1957	Some to increase Some same as 1957 Some to decrease
Rubber products	Sample too small	Sample too small
Mining industry	Sample too small	Sample too small
Construction	Sample too small	Sample too small

The *iron and steel* products industry will show little increase in sales or production over the 1957 level. Some executives in that line predict the 1957 level, or even a decline. This range of opinion is reflected in their anticipated earnings.

The outlook is definitely optimistic in chemicals and allied products, for firms engaged in transport, storage and communications and for public utility operations. The latter is the only industry where there was a unanimous prediction of increase in sales, production and earnings.

Keener Competition

Table IV also shows that even within one industry there is not complete agreement on the outlook for sales, production and earnings. This can be attributed to keener competition. One executive went as far as to say: "Competition is keener now than at any time in the last 20 years."

To meet competition, executives are reluctant to increase the price of their products. However the upward trend in wages and of other costs makes inroads in the firm's earnings. This tendency has been already prevalent in 1957. It would seem that this trend will be emphasized further in 1958.

Personal Views

Personal views of executives further illuminate the statistics.

—"Our customers will continue to be cautious and they will buy hand-to-mouth. It means carrying stock and giving prompt service." (Wholesaler)

—"Competition is now higher than at any time in the past 20 years. It appears as if Canada has greatly over-expanded her industrial production capacity beyond our needs or export possibilities." (Manufacturer of products for construction industry)

—"All our expansion for plant and equipment will be completed in 1957, which has been a year of re-adjustment and consolidation. For this reason, 1958 will be a better year than 1957."

—"Economic conditions will affect most businesses in their ability to obtain more capital to expand." (Transport, Storage and Communications)

—"Our production picture in 1958 should be better than in 1957 with a full year's use of increased space and improved equipment."

—"Decreased earnings are expected due to increasing competition, higher selling and labour costs." (Manufacturer in Food industry)

—"Sales trends to lower priced merchandise has stepped up our net turnover while dollar sales remain practically constant." (Manufacturer of Textiles and Apparel)

—"With increasing population, consumption will increase." (Food and kindred products)

—"It is felt that Industrial Production will continue to decline during the balance of 1957 and early 1958 but that it will resume its long-term trend by the spring of next year." (Public Utility)

—"The general optimism in this survey is prompted by the building of a new enlarged plant." (Chemicals and Allied Products)

—"Our ability to improve earnings will depend upon our success in reducing the rate at which the expense has been rising."

—"Look for some easing in first half of 1958."

—"With particular reference to the maintenance of the prices of our products it is our hope that they will be maintained through greater volume and productivity as a consequence of improved facilities and methods."

—"Because of the increase of domestic sales and prices, export business will be reduced. We are pricing ourselves out of foreign markets." (Large Food and Kindred Products firm).

Conclusions

These personal remarks confirm the general outlook for 1958.

Industry has just completed an unprecedented round of plant expansion. Consequently a period of re-adjustment is setting in. Competition within each industry will be intensified. Manufacturers will maintain present prices on their products in spite of rising labour costs. Earnings will depend on the ability to reduce other costs and capitalize on greater volume of sales.

Greater production volume is predicted due to improved plant and greater sales volume is anticipated due to increasing consumption.

The consensus of opinion is that 1958 will be a good year. Industrial production will possibly decline in the first half of the year but will regain momentum in the second half.

Profits will depend on the ability to cope with the problems of increasing competition and increasing costs.

must MARKETING *mean* MONOPOLY?

Isabel Atkinson

What is the basis of our Canadian economy? Is it, as we all say, freedom for all to compete, to buy in the cheapest and sell in the dearest markets? Is free competition still the spur to efficient production and the safeguard of the consumer? Must cooperation mean compulsion, marketing mean monopoly? Do we not fight monopolies by both legislation and investigation, in the belief that they lead to inefficiency and reduce production below the optimum? If you really believe these things, if you are fearful that the prison walls of George Orwell's "1984" are already closing in, you will read with horror Miss Atkinson's account of what is happening in Canada. Here, as President of the Canadian Association of Consumers, she shows what warrants further investigation by the Royal Commission studying food prices.

LAST July a cavalcade of loaded trucks headed from the Creston District in British Columbia towards the Alberta border. Driving them were fruit-growing members of The East Kootenay Co-operative, an association organized with the intention of claiming for its members the right to market where they chose the fruit they had grown.

But, under the British Columbia Natural Products Marketing Act, B.C. Tree Fruits, Ltd., had been made the sole marketing agent for all tree fruits grown within the region. The Creston Fruit Growers were not satisfied with the results of this Board Marketing and determined to regain their marketing independence.

A short time before, another shipment of fruit had been trucked to Alberta by the same group, had been delivered there without incident, and had realized a *gross* price for early apples more than seven

times the net price paid to the growers the previous season by the Board agency.

On this occasion, police halted the trucks not far from Cranbrook. The leader of the growers, who was driving one of the trucks, had been charged with violating the regulations of the marketing plan. A magistrate had issued an order for seizure. His boxed apples and lugs of grapes were transferred to a truck of B.C. Tree Fruits, Ltd. Under the Marketing Act the fruit became the property of the Board. This confiscation was followed by court action and the grower was found guilty and fined. Plans to make this a test case were foiled when the case was appealed, as the fine was cancelled on a technicality and there was nothing left to appeal. However, loss on the fruit was already a serious penalty.

This is only one of a number of recent cases of producers' opposition to "Board Marketing" of primary produce, yet this same Board Marketing is a system fashioned by producers for producers, and has the official support of organized agriculture, which has advocated it for many years.[1]

Cooperation Made Compulsory

Since the turn of the century producers have been convinced they had to cooperate to survive. They developed many producer co-operatives to enable them to handle and sell their products more effectively. By these means they raised standards, reduced waste and loss, widened their markets and achieved greater bargaining power in negotiations with dealers. In some cases they came to own plants for processing and storage. In 1956 over a thousand producer co-ops were in operation and providing valued service, *but they do not solve all the problems and all producers do not support them.*

During the Depression primary producers suffered acutely. A measure of their distress was indicated by the slogan under which the fruit growers in British Columbia campaigned for a marketing technique which would give them control over the total product—"A cent a pound, or on the ground". It tells a story. They came to believe that voluntary co-operation was not enough. The sacrifice of independence which compulsory co-operation involved seemed to many not too high a price to pay for a united front which they trusted would give them the economic freedom of better prices and the control of their products, from the farm to the consumer if necessary, that would prevent their exploitation.

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[1]See R. von Pilis, "Canadian Farmers Must Cooperate to Survive", Business Quarterly, Spring, 1957.

The method they decided on was that of "Producer Board Marketing". This was to be made possible by Provincial and Federal legislation to endow the proposed Boards with essential powers. Such legislation was passed. There is a Federal Marketing Act, and each province by now has *its* own Marketing Act. The powers granted to the boards are not only extensive, they are unique. Whether they are completely constitutional is uncertain. In general, they follow the same pattern because the plan is eventually to co-ordinate provincial boards, in appropriate cases, into one Canada-wide National Board.

Taxation Without Representation

In each province the Act makes possible the setting up of what is called a Government Marketing Board (except in cases where the Cabinet acts) which does not market, but is a tribunal with power to rule on applications made by producers for approval of any Marketing Plan, which they submit. In some provinces a vote of producers concerned *must* be taken before approval; in others the tribunal may decide to approve the plan without a vote. What constitutes a favourable majority is a matter about which the provinces differ. Some acts require a majority of the producers voting; some a majority of those affected by the plan; and in Quebec the favourable majority must be 75% of those affected representing 75% of the product.

Once the Marketing Board is approved, it is endowed with all the powers provided under the Act. Its members are producers elected by producers to represent producers. Dealers and processors, as well as producers, may be required to take out and pay for licenses, although they were not parties to approving the board and are not represented on it. Failure to comply with regulations of the Board may result in loss of the license, and without that, neither producers nor others to whom they were issued can continue to market. The Board is itself, or it may appoint some other body to be, the sole marketing agency in the region. The grower cannot sell his crop if he is deprived of his license. This is the compulsion. The agency may decide it can handle only a portion of the crop. There is no alternative market. As we have seen, the board may stop and search the growers' vehicles, and confiscate the produce on a charge that regulations are being violated. It may enforce inspection of account books. It may set minimum—or maximum prices, or both. It is not a *Government* Board which exercises these powers, but a non-government, producers' Board, acting within the special powers of the Marketing Acts. That is, it exercises the authority of a government body without the responsibility of *being* a Government body.

"Some Are More Equal Than Others"

The Acts are made to apply to a wide range of products, although

the list is less comprehensive in some provinces than in others. One Act specifies every product of agriculture, forest, sea, lake or river, raw or processed, or goods derived in whole or in part from them. Definitions of "marketing" are equally comprehensive, including owning, buying or selling or offering for sale, advertising, financing, assembling, processing, packing, shipping for sale and transportation in any manner by any person.

Powers include the collection of "levies" as well as license fees, and from those who handle as well as those who produce. Except in the Quebec Act there is practically no recognition of the fact that any individuals or economic groups other than producers have any right or interest in the marketing of the food supplies of the whole people.

Overcoats in Summer

The climate of opinion which led to the adoption of this policy of Board Marketing developed in the years before World War II. Since that time revolutionary changes have affected primary production and also the whole pattern of consumption and consumer supply. Urbanization has been accelerated, with its creation of mass markets. On the farm, mechanization has so increased production that only a small proportion can be absorbed by local demand. Costs of transportation are too high to warrant inclusion of waste, culls or dirt, and where produce is perishable unless handled with care, careful grading and packing is needed. Specialization has invaded the farm front too. For many producers eggs and poultry are no longer the side-lines of mixed farming, but a commercial industry in which they are becoming experts. It is important to them to have freedom to market where they can get the best terms. Frequently they produce on contract for specific supermarket or similar large scale outlets. For quality products they may get premium prices. These specialists may find it the reverse of an advantage to be tied up in a Board Marketing plan. This is just an instance of what the trend to specialized production may do.

The other side of this situation has to do with the great changes which have taken place in processing and distribution. These involve budgets for research, capital investment in laboratories, in equipment for temperature and humidity control, for modern storage and transport, for processing, for packaging, for sales promotion and other phases of distribution. Personnel needed for management and working force include more and more people with technical and expert knowledge in the food field. It is a highly complex business and it will be increasingly difficult for producers themselves to realize the original aim of financing and of controlling products "from feed on the farm to food on the table". Our producers have inherited a tradition of a "Do it Yourself" economy from the days when the farm family was a self-

contained and almost self-sufficient unit. What they could not do for themselves, they did without. Canadian producers are still among the most versatile people, often proficient in mechanics and other things besides agriculture, but to stake a claim on the whole field of "marketing" as this legislation does, is no longer practical for amateurs. If it is not practical it would be to their advantage to limit their claim by modifying the law. To be practical it must work well and it must save more money than it costs.

The fact is that conditions of production and distribution have almost completely changed since the basic ideas of "Board Marketing" were shaped into a policy. Problems of Marketing remain. For the farmer they continue to be problems of efficient marketing of quality produce at prices which will encourage him to continue in production. The price must not be one which will *dis*courage the consumer from continuing to consume, because, with the much wider range of foods on the modern market, she can often find a satisfactory alternative. The fact must be stressed that consumers share with producers concern in quality production and efficient marketing and know that good produce deserves a fair return.

Struggle for Liberty Persists

Board Marketing has been advocated for well over twenty years. What progress has it made? A review of the record is rather surprising. There is enabling legislation in each province. In Newfoundland, where agriculture is limited, the Act is a dead letter. In Prince Edward Island, a plan for a Potato Board was approved but the Board is not Marketing. In Alberta and in Quebec, plans are being developed or considered, but were not operating at the time of a Federal Report issued at mid-1957. Saskatchewan and Manitoba each have a Honey Board, but these have not produced sufficient sweetness to sell their techniques for universal application. Indeed, in both these provinces and in Alberta, despite vigorous campaigns lasting for several years, for the establishment of Livestock Marketing Boards, when the time came to submit producer plans for approval to the Government Boards, unexpectedly powerful opposition from stock growers (the cattle men), defeated the effort.

Nova Scotia and New Brunswick each report four Marketing Plans, but in New Brunswick two of the four are not Marketing and a third is limited in its application. Nova Scotia has approved Boards for Hog and Wool Marketing, neither of them large scale plans, and records plans for Apples and Tomatoes. The last two are not included in the list of Boards in operation in the Federal Report of 1957.

Thus, in four of the ten provinces, Board Marketing is not yet functioning and in another four there are six plans in operation, none of them on a large scale—not a big score for eight of the ten provinces.

"Orderly Marketing"

In British Columbia, there are two regional plans for vegetable marketing, one of which uses two co-operatives as its marketing agencies and negotiates for the producer the minimum price for produce; and also the British Columbia Fruit Growers' Association which is the parent body of the British Columbia Fruit Board, the outstanding example of Board Marketing in Canada. B.C. Tree Fruits Ltd. has been established by the Board to be the sole agency for marketing fruit growers crops and has been functioning for twenty years or more. It has grown to be a highly developed organization which affects every stage of activity from the growers to the wholesalers who purchase the fruit and the products into which it is processed. Extensive price fixing powers have been conferred on it under the Act, but it does not attempt to exercise the power, which it technically enjoys, of fixing retail prices. In fact, as the 1957 Federal Report tells us, in practice it has not been setting prices, but sells for the best price obtainable, pools the proceeds for a specific period of time, and remits to the producer his proportionate share, less deductions for handling costs. Most of the Alberta and Saskatchewan markets are supplied with fruit from British Columbia. An aggressive policy of sales promotion is extending the area further and further to the east. Because of the high standard of grading, storage and packing, B.C. Apples compete in some seasons of the year for a share of the market in the best apple-growing districts in eastern Canada. Considerable quantities of the fruit and its products are exported.

Many of the aims covered by the phrase "orderly marketing" are being performed as a result of Fruit Board operations which would not have been done at all, or not so well, if left to individual effort. Conditions under which fruit pickers work and the pay they receive have been radically improved. This is one case of Board Marketing which does operate on a large scale, has operated continuously for many years; which manages to ship perishable products in good condition over long distances and which has extended the season when it can offer its products by the use of efficient cooling and storage plants and processes. Quantities of fruit are processed and a large proportion of Canada's supply of canned fruit and fruit juices originates in B.C.

Bloom Off the Fruit

The picture is not all rosy, as the action of the Creston Fruit Growers reveals. They think the Board is a huge bureaucracy which is a burden instead of a benefit to them. Earlier this year the Provincial Government appointed a Royal Commission to inquire into the Marketing of Fruit in the Okanagan Valley, the region served by B.C. Tree Fruits Ltd. While the Report of this Commission did not recommend

any changes, the fact that it was considered necessary to institute such an inquiry may be reassuring to those who feel that decisions made ten, or twenty or more years ago should not go for too long without review and reconsideration. A brief prepared by consumers and presented to the Commission complained, among other things, that the domestic, or local market, (that within the province) was neglected. First quality fruit was supplied for export beyond the province, and to processors for canning, while that supplied to the domestic or local market was inferior in grade but not in price.

It seems unlikely that voluntary co-operation would have been as successful in creating an organization to co-ordinate and manage the many phases of marketing activity dealt with by the B.C. Tree Fruit Board. The fruit growers who want to be "free" to market their crops independently complain of its high costs as they complained of the high costs of private enterprise. However it is done, Marketing costs money and it costs more under modern conditions because markets are more remote and standards of supply have changed.

Oasis in Ontario?

Ontario has fourteen schemes for what started out to be Board Marketing, (plus three others which operate under the Milk Industry Act, to which they have been transferred). They cover some twenty-seven products and include fruit and vegetables for canning; sugar beets, seed corn, soya beans, grapes, onion setts, and beans. A close look at these plans discloses that the Boards set up do not market. Indeed, they exercise in a very limited degree the extensive powers of the Marketing Act. Most of the products listed above are for processing. The producers' representatives appoint producer members of a negotiating committee, to meet with representatives of the dealers or processors, and terms and conditions of sale and minimum prices for specified grades are agreed on. There are licenses and, in some cases, a small levy in proportion to quantities handled. The practice seems to be much sounder than the theory behind Board Marketing. Producers meet and negotiate with dealers and processors instead of imposing a rigid schedule decided on by procedure alone.

Ontario organized a Honey Board, too, but abandoned it when the producers found they could not control the selling price of honey brought in from outside the province. The Fresh Peach Marketing Board *does* direct the marketing. It was organized in the hope that it would give the growers higher prices but soon found that it had to provide a quality product at realistic prices. Acting together, members discovered that with traditional methods losses on peaches in transit ran as high as 24% with high additional wastage of this perishable product in wholesale and retail hands. Tests showed that field heat up

to 110° was frequently locked into the peach basket under a cellophane cover, which held the heat in, so that fruit would cook in its own heat and be spoiled. This field heat must now be reduced to 50° on orders shipped out of the province. Cooling procedures, better containers, better methods of handling in transit, are being introduced with other helpful services including sales promotion for local markets as well as "export" sales. Growers contract with shippers of their own choice and minimum prices are negotiated by the Board. There is an arrangement to promote the handling of surplus peaches in a year of high production, under special conditions, at less than the minimum price, which is better than taking it for granted that destruction is a suitable way of dealing with a "glut". The plan seems to be working well although some of the growers are so dissatisfied with it that a test case was to come before the Courts in October. Many growers and consumers all across the country find it hard to believe that there are services involved in distribution which are essential, whether marketing is done by commercial firms or producers' boards, and the diversion of a substantial proportion of the "Consumers' Dollar" from the producers' pocket is deeply resented. If we are to eliminate the distrust behind such opinions there must be a high level of efficiency in the services, and a frank interchange of information. Even with that, understanding and goodwill are likely to take time.

Hogging It?

The Ontario Hog Marketing Board seems to be in a different category from the other boards already outlined. From the first its aim has been to control the price the grower would get, through controlling the selling of the hogs. It was established in 1946 after a vote of producers had been taken. 31,796 producers out of a total of some 123,000 voted and 98% voted in favour of the Board. This suggests something less than widespread enthusiasm among a large proportion of the growers, but strong support from an active minority. Indifference of the majority may have been the reason why, when a selling agency was appointed, only 9% of hogs sold were marketed through the agency, the rest going, as before, direct to the packers. An important change in procedure was that the packers no longer paid for the hogs direct to the producer. Payment was made through the Board's selling agency and a deduction of .24c per hog was made for "services" of the Board. Representatives of the agency meet in Toronto daily, or every few days. Representatives of the dealers or processors meet with them, and prices are "set". These prices are based on current Livestock Market prices as quoted daily. All buyers are bound to pay these prices, which remain effective until new prices are announced. The actual pick-up, assembly and delivery of hogs by drover or shipper continues as before for 91% of the hogs grown.

For what, then, was the deduction of .24c per hog which the Board claimed? This was one of the questions asked by Theodore Parker, of Ellice Township near Stratford, an Ontario hog grower who openly and persistently has challenged the Board's authority for the last four or five years. Supporters of the plan claim that the meetings to "set" the daily prices prevent exploitation of the individual grower by the packers. Parker claimed that if he was capable of raising hogs he was capable of selling them, and that the Board added just one more "middleman" who had to be paid although the Board's negotiations did not result in any price increase. As around two million hogs are sold annually in Ontario, the Board's income from that source at .24c each should be about $480,000 per annum. Does it cost so much, should it cost so much, to operate the Board? What good does it really do? As a result of Parker's efforts, a hog growers' petition with over three thousand signatures was presented to Premier Frost asking for abolition of the Board. This was strong support but not enough to persuade the premier.

Later, the Hog Marketing Board, as a result of legal action on Parker's account had to put its selling agency on a sounder footing. The law was amended. The Ontario Hog Marketing Co-operative became the authorized selling agency. More shipping points were provided and a campaign increased the proportion of hogs sold through the agency to 23%. Another challenge in the Courts, with the government facilitating its quick reference to the Supreme Court, brought a ruling that the .24c levy was illegal, because it was an indirect tax imposed by a non-government body, in so far as it exceeded the expense incurred by the selling agency in making the sale. That decision might well have ended the matter, and would at the same time have undermined the authority of each of the Provincial Marketing Boards, but for further amendments hastily made to prevent such a result. The amendments confirmed and extended the power of these non-government bodies to impose levies for the creation of reserves, and other Board purposes. The Federal Government amended the Federal Act along the same lines. These amendments also included clauses which, when a producer is charged with violating board regulations, place upon him the onus of proving that he is NOT guilty. This is extraordinary legislation, quite contrary to Anglo-Saxon tradition that a man must be considered innocent until he is proved guilty. Apparently there was all-party, if not unanimous, support for the amendments at both levels of legislation. Such legislative support indicates the general level of sympathy with producers and an assumption that these marketing problems are exclusively producers' problems and that organized agriculture knows best how the problems of marketing produce can be solved.

Quebec Considers Consumers' and Public Interest

The Quebec Marketing Act, passed in February, 1956, has a dif-

ferent approach. Years of study of the principles, the administration and the results of marketing in Europe and North America provided the foundation. The Government Board is enjoined in its actions to take into account the legitimate interests of producers *and* consumers and particularly the welfare of the community and public interest. The government board retains most of the responsibilities which, under the other provincial acts are vested in the producers boards. It delegates some powers, but its continued oversight is planned to limit abuse of them. A vote of producers concerned under a plan is mandatory before the plan can be approved, and the majority in favour must be 75% of the producers representing 75% of the product. Price fixing control is limited to sale by the producer to the first purchaser and direct sales by a producer to a bona fide retailer or to a consumer are exempt from control. Regulations and penalties are similar to those in the other acts *but enforcement of them is in the hands of the government* board, *not* the *producer* board. There is no "onus of proof" clause. Existing producer co-operatives are to be given prior consideration as marketing agents for producers' boards. The Act also provides for a Consulting Committee to represent co-operatives, consumers and others who have a concern in marketing.

The powers provided for board marketing in the other provincial acts are extensive, arbitrary, and authorized for the use of the producer exclusively. So far the number of boards established and the range of their effectiveness is very limited. This must be because their advocates have not found it practicable to use them more widely. Where board marketing is most extensively used, in Ontario, the *practice* makes a very modified use of the powers available. The boards are mostly negotiating, instead of marketing, boards and they work *with* dealers and processors. Would not it eliminate much of the opposition if the acts were, like the Quebec Act, more in line with present practice than with the original theory of "producer control"?

Consumers' Criticism

The Ontario Hog Marketing plan is not just a scheme for Ontario, but part of a plan for a Federal Livestock Marketing Board to control meat production as the Wheat Board controls wheat. One of the leaders has said that producers are looking forward to the day when we have enough provincial boards so that they can be associated in a national board, which would handle exports while provincial boards handle all the meat consumed in their respective provinces. Price control is a part of this plan. This would, of course, constitute a monopoly, and a monopoly of a major part of Canada's food supply. Unlike monopolies established by other economic groups, lumber, mining, manufacturing, etc., it would not be subject to our anti-combine legislation, or our prohibition of price maintenance, because these boards are

specified by the marketing acts to be "co-operatives" within the meaning of the act, and co-operatives are exempt from the operations of the anti-combine legislation.

It was because of the plans for inter-provincial, as well as intra-provincial, marketing of primary produce that the amendments to the Ontario and Federal Marketing Acts were demanded after the Supreme Court decision earlier this year.

Progress towards making Board Marketing general across Canada has been limited, but problems of marketing are very real and will continue although they may change. They do concern consumers as well as producers, and will have to be solved in co-operation with those who process and distribute the goods.

Until recently consumers were in no position to contribute to the solution of marketing problems. Today fortunately, they are organized, with branches in every province, and have come to grips with some of the difficulties of grading and standards. They are anxious to work with those who provide and distribute their food supply and they know farmers cannot continue to produce unless their returns are enough to keep them in business. They are willing to pay for the goods which are up to a standard and they frequently prefer them to be prepared and ready for use. They are no longer drudges for whom time has no value. Many of them are part- or whole-time workers who know the dollar value of their time. If part of the consumer's dollar is expended on processing which eases the work-load of the home-maker it may be a true economy, whether she is a busy mother in the home all day or a member of the labour force. What the consumer is no longer willing to tolerate is a situation where her needs and her opinions are ignored. Efforts by any economic group, even producers, to establish a monopoly or to maintain prices by controls which she could not influence would arouse her determined opposition. Consumers do not want any system to become established which adds to costs without adding to the value of the goods they buy.

what are

PRESIDENTS

made of?

Frances Oxley

What distinguishes the soldier with the field marshal's baton in his knapsack from good soldier Schweik? What makes the modern president? Is he born or can he be fashioned by education? What are presidents made of? To discover answers, Miss Frances Oxley of our Research Division polled a cross section of Canada's presidents asking them both their own opinions and their own backgrounds. Here is a condensation of their 128 answers.

WHAT are Presidents made of? Certainly not sugar and spice and all things nice, nor yet snails and puppy dog tails, stated over one hundred presidents of Canadian companies. Almost unanimously they agreed that the road to the top is a rough and difficult one to be travelled only by those with exceptional courage and determination. Intense self-interest, driving ambition, a refusal to be beaten (shades of Robert Bruce and the spider!) and a strong dose of common sense, integrity and hard work seem to be the essential ingredients of success for the aspiring man in the Canadian business world.

These ideas were expressed in many different ways by 128 Canadian presidents polled by the Division of Research at the School of Business Administration, University of Western Ontario. One president stated that "self-interest, grass roots common sense, native ability and guts," were necessary for success. According to another the necessary prerequisites are "determination to succeed regardless of time and effort, the development of discipline and powers of concentration and a great deal of hard work"; to a third, who pointed out that success was not a static condition, they are "willingness to learn and to work with persistence at whatever was considered worth attaining"; if this willingness is absent, "the goal of success will move further and further away until it is lost and failure will result."

Ability to Get Along with People

In addition to these individual and personal qualities, the aspiring businessman must, according to many presidents, be able to understand

and to "get along with" people. Nearly 40% of the 128 included this quality as another essential ingredient of success. At the same time, there was not complete agreement on the precise meaning of the term "to get along with" people. To some it meant the ability to obtain the co-operation and loyalty of those around them, to others it meant the ability to obtain the respect of their subordinates, and to still others it meant the recognition of the importance of the work done by others.

The president of a large iron and steel company remarked that, "Personal characteristics, particularly the ability to persuade or to sell people, both up and down the line of authority in one's own organization, rather than the mere exercise of authority itself, (i.e. the development of skill and ability in working successfully with other people) is a factor which could be listed in equal importance to judgement and business sense. It is interwoven in these."

A president of a medium-sized food manufacturing company listed the qualities he considered necessary in the following manner: "The ability to get along with people, to understand them and to have them understand and *respect* you. The ability to be able to get your associates to work for and *with* you—*and to like it.*

"The ability to delegate work and responsibility to others and *to let them do it.*

"The ability to take responsibility for mistakes, but to give credit to others for successes."

The intangible nature of these abilities and the difficulty of communicating their essence to others was recognized. The ability to take responsibility for mistakes and to give credit for successes was a simple bit of management psychology which few executives seemed to understand.

Are Leaders Born or Made?

"Leadership is most important. I find it impossible to tell anyone how to achieve the ability to coordinate the activities of many departments and to obtain the willing co-operation of many people whose background, training and experience differ. The head of an organization must be a man of ideas and must always be looking ahead."

Although the great majority emphasized the importance of the inner qualities of the man himself in his struggle for success, there was also a clear recognition of the part played by external factors. Many stated that both education and business experience were necessary although not sufficient by themselves.

Several remarked that a true education could help, and should be designed to help, the development of qualities which lead to success such as determination, honesty and understanding. A broad, general type

of education was the most beneficial. Study in special fields should occur either during actual business experience or in extra courses.

"I would rate education important as a pre-requisite to embarking on the career. It is my opinion that it is important only, however, in the early stages of a man's development. Once he reaches the executive level, the other factors of experience, family background and personal characteristics are much more important than the detailed knowledge of a young graduate."

"Reasonable education is essential but it does not necessarily have to consist of a university degree. Specialist knowledge can be acquired on the job and is very necessary. It can be acquired either in several companies or in several jobs in one company."

"Persons with highly specialized knowledge do not necessarily have ambition plus drive, ability to understand and get along with other people, ability to care for details and to control money. Neither do they necessarily have astuteness, honesty, forthrightness and business acumen. They are therefore often confined although successful."

On the other side of the fence were those who felt a university education to be very necessary in this modern age. It enables the executive to understand the technology of industry and also to understand the professional people with whom he has to deal. At all times, however, it was maintained that education without experience was of little use.

What Education is Best?

What kind of training would be best for a young aspirant to the position of president? Engineering combined with commerce, business administration and/or general arts would provide the best background, agreed 34% of the presidents. Their suggestions are listed in the table below.

Table I — Suggested Education

	Number	*Percent*
Engineering with commerce, business administration and/or general arts	44	34
Business administration or commerce	35	27
Engineering	20	16
Business administration and general arts	10	8
Specials (pharmacy, agriculture, chemistry)	5	4
Good basic education in any field	2	1
None suggested	12	10
	128	100

Special courses such as pharmacy and agriculture were mentioned by presidents who were engaged in industries in which this type of knowledge was essential. Those who suggested engineering either in combination with other courses or by itself were employed in a great variety of industries. Although those in iron and steel and pulp and paper manufacturing companies were predominant, presidents of companies manufacturing food, textiles, electrical appliances, chemicals and rubber also suggested engineering courses.

Family Background

One other factor was mentioned by several. Family background was very significant for success but only if it were of a proper kind. If it provided an environment where the qualities of integrity, ambition, understanding of people and the social graces were learned it could be a great asset. On the other hand, if it did not provide this kind of environment it could be detrimental and would therefore be a factor which the aspiring business man would have to overcome.

Family connections and family influence however could also be hurdles rather than helps. "It is far easier to become the president of a successful family company than to become a successful president of a family company."

"The Fire Must Come From Within"

A very neat and concise statement of what appears to be the essence of the opinions of Canadian presidents concerning the factors that make for success in a businessman was made by the president of a small mechanical contracting firm.

"The greatest factor is the man. The fire must come from within. Many have business background, education and intelligence but the essential qualities are courage, determination, the competitive spirit of a good athlete and the calculating judgement of a good gambler. All this must be backed by a good basic education and a balanced and sound mind."

The Source of the Opinions

These opinions concerning the qualities of a successful executive come from a rather impressive cross-section. Presidents of small, medium and large sized companies operating in a large variety of manufacturing industries were included in the poll. Table 2 indicates presidents of small companies and presidents of companies manufacturing iron and steel products were in the majority.

Table II — What Sort of Presidents Gave Opinions

By Company Size

	Number	*Percent*
Small companies (assets under $10 million)	62	59
Medium companies (assets $10 million to $25 million)	23	16
Large companies (assets over $25 million)	43	25
Total Replies	128	100

By Industry Group

	Number	*Percent*
Iron and steel products	28	22
Food, beverages and tobacco	21	16
Pulp and paper products	17	13
Textile products including clothing	13	10
Electrical apparatus and supplies	11	9
Chemical and allied products	10	9
Wood products including furniture	8	
Rubber products	4	
Non-ferrous metal products	3	
Other	13	10
Total Replies	128	100

In addition to holding the position of president in the manufacturing companies listed in Table II, however, the executives also held prominent positions in a large number of other business organizations in Canada, and thus form a far more representative group that might appear at first glance. The presidents who replied also held positions as president in 124 companies in addition to the one to which the questionnaire was addressed, were directors of 262 others, chairman of the board of 29 more and vice-president of a further 23. All told, they made up an impressive group of influential and exceedingly successful business executives, well qualified to express their opinions.

Their Education

In addition to their success in business, the presidents who replied to the poll can also claim academic distinction. Two-thirds had attended university and, with very few exceptions, had obtained at least one degree. In addition, 17% had obtained a high-school education, and

10% had attended technical school. Only 6% of the 128 presidents had had no education beyond public school.

The distribution of subjects studied by those who attended university is shown in Table III. Approximately one-third of the presidents completed arts and science courses, one-third engineering courses and one-fifth commerce or business administration courses. The remaining 10% represented a miscellaneous variety of courses, such as pharmacy, agriculture, law and military training.

Table III — University Education of Presidents

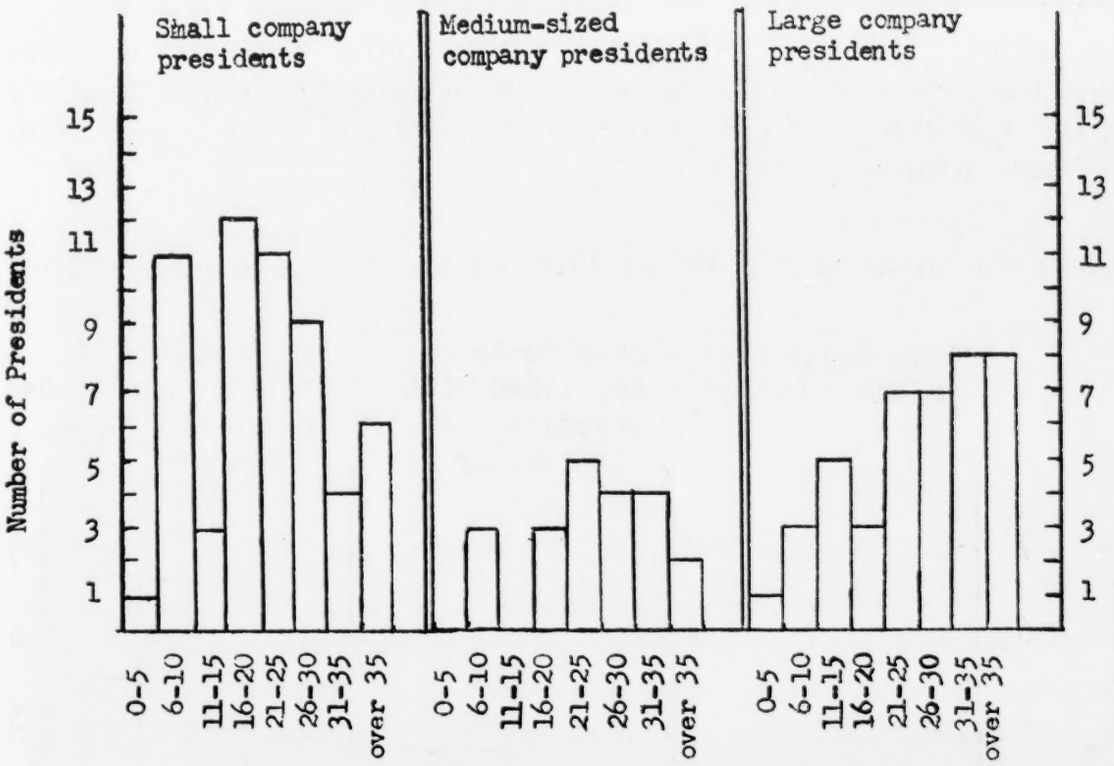
	Number	*Percent*
Arts and science	31	34
Engineering	30	33
Commerce and business administration	19	21
Other	11	13
	91	100

In both small and medium-sized groups of companies there were two presidents who had undertaken post-graduate study. Of these, two had obtained a Ph.D. degree in science. Of the large companies eight presidents had continued to study after they had obtained an undergraduate degree. One of these had acquired a Ph.D. in chemistry and one an M.A. in French. The other six had combined two courses of study and had therefore obtained undergraduate degrees in two separate fields. Engineering and agriculture had been combined with business administration by three, while general arts and law, agriculture and economics and engineering and banking had been combined by the remaining three. Of the 128 presidents, only two had studied law.

Business Experience

Many presidents emphasized the value of a large and varied amount of business experience for the ambitious businessman. The background of present presidents proves the truth of this. With very few exceptions, the presidents in the survey had had extensive experience in other jobs before they were given the responsibility of the top position in a company. Approximately two-thirds had worked in business establishments for 16 or more years. Also, in the larger companies there appeared to be a slight tendency for presidents to have more experience behind them than in the smaller companies. This is brought out clearly in chart I below.

Chart I — Business Experience of Presidents



Mobility

In general, the mobility between companies and jobs among the presidents during their previous business experience was relatively high. It was not uniform, however, throughout the different groups.

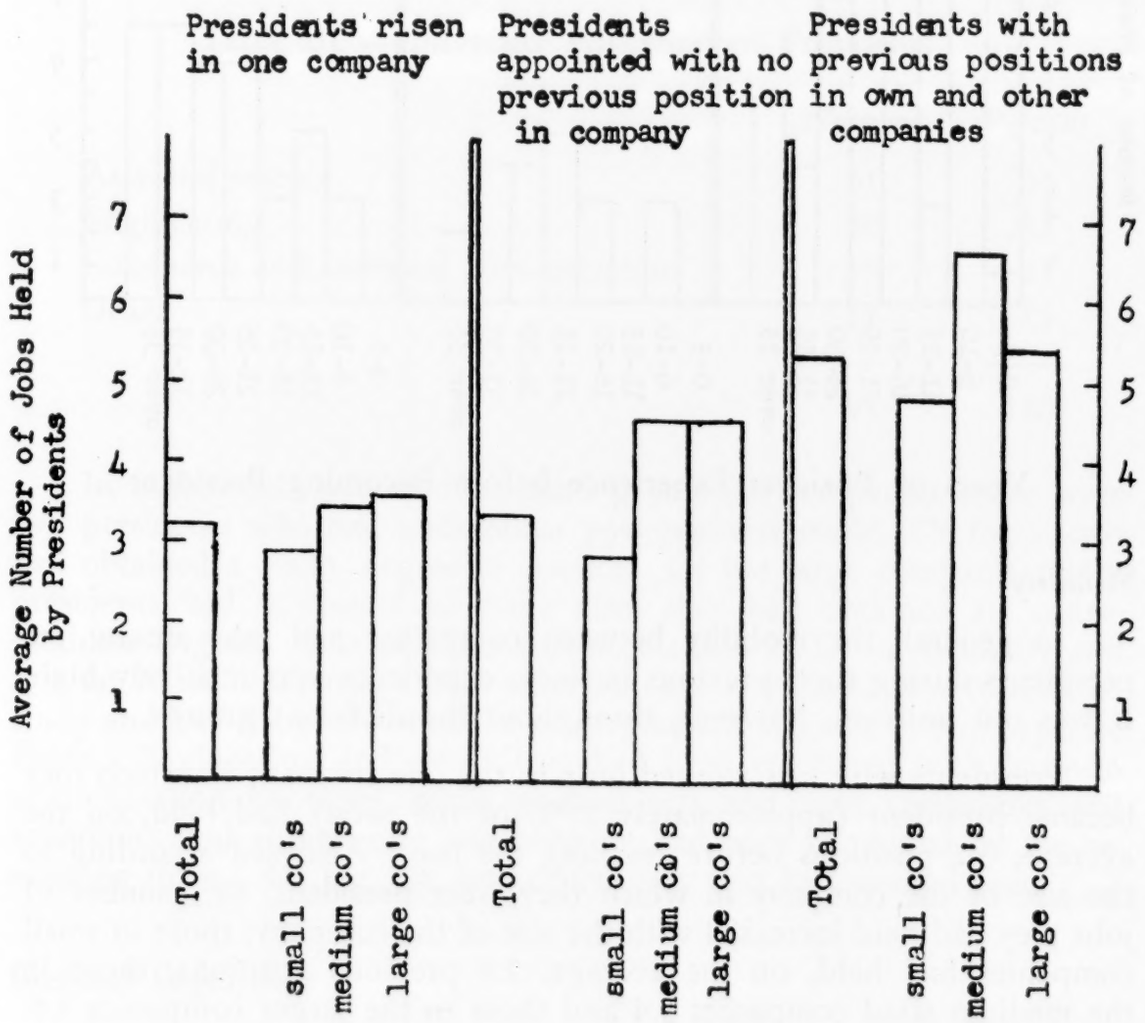
Presidents who had worked only in the one company in which they became president (approximately 27% of the total) had held, on the average, 3.2 positions before reaching the top. Analysed according to the size of the company in which they were president, the number of jobs they had held increased with the size of the company; those in small companies had held, on the average, 2.9 previous positions, those in the medium sized companies 3.4 and those in the larger companies 3.6.

Those appointed presidents in companies in which they had had no previous experience (23% of the sample) demonstrated a similar pattern, but the average number of previous jobs increased to a greater extent with the size of the company. Compared to a group average of 3.3 previous positions, the presidents of small organizations had held 2.8 jobs and those of the medium-sized and large companies had held 4.5 jobs. Those presidents who had previous experience with both their own and other companies—nearly half fell into this category—had held, on the average, 5.3 previous positions. Presidents of small companies

had held 4.8, those of medium-sized companies 6.6 and those of large companies 5.4.

Chart II below clearly illustrates these differences. Most of this previous experience was obtained in manufacturing companies. Only a few had changed from finance, government and other organizations to manufacturing.

Chart II — Average Number of Previous Positions held by Presidents

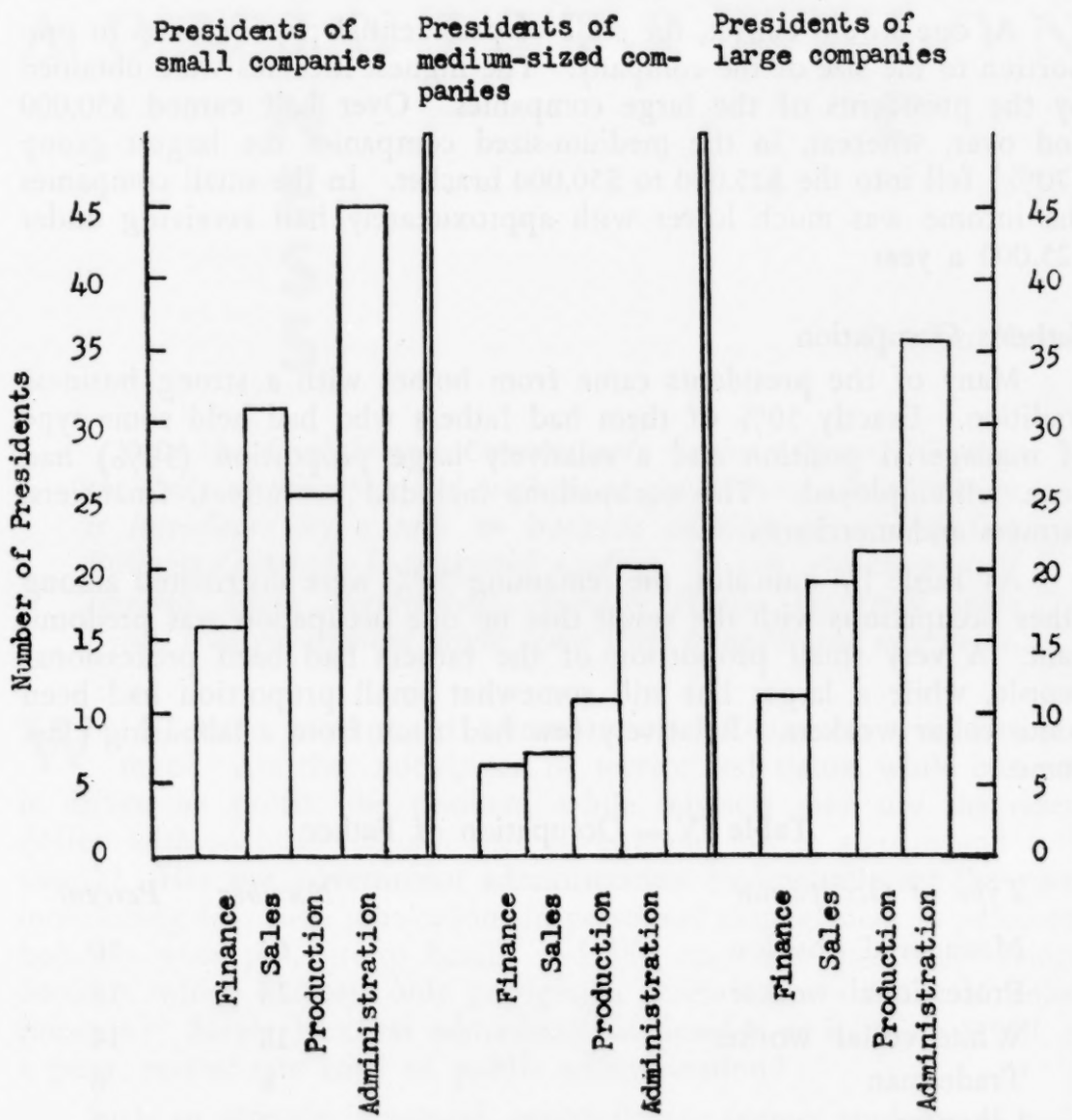


Area of Experience

Presidents had most frequently moved from sales to general administration before they assumed their position at the head of the business. This pattern was particularly noticeable among those who had become presidents of small companies. Those who were at the head of medium-sized and large companies had followed two predominant paths. In addition to those who moved from sales to administration and then to president, there was a somewhat larger number who had

moved from production to administration and then to president. It appears that past experience in finance activities helps less toward attaining the position of president than experience in any other area. These differences in pattern stand out clearly in chart III below.

Chart III — Areas in which Experience Gained



It was more common for presidents to have experience in two areas only, especially in large companies. A small number in each company size group had worked in three areas, but only three in the entire sample had worked in all four areas of sales, finance, production and administration.

Family Background—Income

The large majority of presidents (64%) came from homes in the middle income bracket. Nearly 20%, however, came from low income

homes while a rather surprisingly low proportion (12.5%) came from homes in the high income group.

When we compare these data with the figures on the present income of the presidents, it is obvious that many of them have greatly improved their economic status during their own lifetime. More than two-thirds had a total annual remuneration of $25,000 and over.

As one would expect, the scale of presidential pay increases in proportion to the size of the company. The highest incomes were obtained by the presidents of the large companies. Over half earned $50,000 and over, whereas, in the medium-sized companies the largest group (70%) fell into the $25,000 to $50,000 bracket. In the small companies the income was much lower with approximately half receiving under $25,000 a year.

Father's Occupation

Many of the presidents came from homes with a strong business tradition. Exactly 50% of them had fathers who had held some type of managerial position and a relatively large proportion (39%) had been self-employed. The occupations included executives, financiers, farmers and merchants.

As Table IV indicates, the remaining 50% were distributed among other occupations with the result that no one occupation was predominant. A very small proportion of the fathers had been professional people, while a larger but still somewhat small proportion had been white collar workers. Relatively few had risen from a labouring class home.

Table IV — Occupation of Father

Type of Occupation	*Number*	*Percent*
Managerial position	64	50
Professional worker	14	11
White collar worker	18	14
Tradesman	8	6
Labourer	2	2
Unknown	22	17
	128	100

Nationality

Are all the top jobs held by Americans? Although the sample may not be representative of all Canadian companies, the presidents, as explained above, were connected with more than 560 Canadian companies, and no fewer than 78% of these presidents are Canadian.

BUSINESS ADMINISTRATION PUBLIC

Gordon Huson

In the Civil Service Commission's Senior Officers' Course, the study of principles and methods of government administration is introduced by a talk on business *administration and The* Business *Quarterly is suggested reading. In this address to civil servants (here abbreviated), Gordon Huson suggested some things that government might learn from business and vice versa.*

WHAT have government administrators in common with business men? Are they not driven by service and status, while business is driven by profit; the thinkers, while business men are the doers (often with so little thought that government has to step in and curb them)? Has not government administration traditionally set the pace, introducing *first* such innovations in personnel management as pensions, holidays with pay, group health and life insurance and other fringe benefits, which business only grudgingly conceded as a result of union pressure? Surely business administration, insofar as it exists at all, is a poor, second-rate copy of public administration?

Such an attitude is natural, especially for former students of political economy, and twenty years ago would have been quite right. According to Adam Smith, Marshall, Taussig and all their so-called "classical school" of economics, our capitalist society, as described by R. H. Tawney in "Acquisitive Society" and "Religion and the Rise of Capitalism", is based on the profit-motive with economic man constantly trying to increase his material wealth. In the 20's a young Maynard Keynes wrote: "Modern capitalism is absolutely irreligious, without internal union, without much public spirit, often, though not always, a

mere congeries of possessors and pursuers". More recently, in 1949, that arch-apostle of free competitive society, Ludwig von Mises, wrote in his mammoth masterpiece "Human Action":

> "Notwithstanding all declarations to the contrary, the immense majority of men aim first of all at an improvement of the material conditions of well-being. They want more and better food, better homes and clothes, and a thousand other amenities."

This type of thinking, which, beginning with Adam Smith, broke down the old mediaeval society based on status, places a gulf between those in business driven by profit, and those in the services driven by, what—sense of service, status, maybe?

But is this type of thinking really relevant today? Surely it should have disappeared with the bonfires of foodstuffs while millions starved in the Great Depression. That eminent Canadian professor of economics, Stephen Leacock wrote back in 1936 as a finale to his "Hellements of Hickonomics":

Adam, Adam, Adam Smith,
  Listen what I charge you with!
    Didn't you say
      In the class one day
        That selfishness was bound to pay?
Of all your doctrine, that was the pith,
  Wasn't it, wasn't it, wasn't it, Smith?
Don't you remember your book begins
With a panegyric on making pins?
  Didn't you say that the more we made
  The bigger would be External Trade?
We sold the pins and the Foreigners had 'em
That was the big thought, wasn't it, Adam?
And didn't you say—don't think it funny,
That the greatest thing in the world was money,
And didn't you say—now please don't shirk,
That the basis of value was human work,
  And the worker must be content with his lot
  Being worth precisely just what he got?
    Come, don't evade it,
    Long-winded Scot,
    Just whether you said it
    Or whether not? . . .
Smith, come up from under the sod,
Tell me what did you do with God?
  You never named him, I understand,
  You called him (Book IV) "an invisible hand";

You gave him the system all geared and speeded,
With none of his interference needed.
It wasn't worthy a man of your size,
Smith—come up and apologize.

If only Adam Smith had studied that earlier philosopher John Locke (1632-1704) a little more assiduously he would have found a solution to the apparent conflict between individual profit-seeking and the social interest. John Locke a hundred years earlier had pointed to the fact that provided we look far enough ahead, the roads of self-interest and social interest run together to the same place. Since the thirties, business has realized this too; business has got bigger and the bigger the business the further it looks ahead, until you have President Greenewalt of DuPont de Nemours saying in 1956:

". . . Business, unfortunately, is too often judged in black and white . . . But emphasis on things which are wrong must not be allowed to obscure the things which are right; that economic progress of the most monumental kind has come about through the business process.

"Much has been said in recent years of the 'new type of businessman', as if, by some process of sexless eugenics, the bull terriers and bloodhounds of the business past had been crossbred to produce a race of intelligent and kindly poodles . . . men will always reflect the society in which they live, will respond to its pressures, its ideals, and its customs. As society as a whole develops and grows both spiritually and materially, the individuals comprising it will, on the average, grow and develop with it. In business endeavour, there is an added pressure for the conformity to the public interest, arising simply out of the *numbers* of people involved in any given management decision.

"The change over the years from the responsible individual to the responsible group has greatly increased emphasis on continuity of a given enterprise . . . over the long stretch of corporate life, no business can prosper unless it serves the public interest in all of its many facets. And, as a business develops and its policy-making decisions are delegated to an ever-increasing number of people, business conduct will in itself reflect the public interest . . ."

This sounds very different from the business man pictured in classical economic theory. In his Principles of Economics (p.148) Taussig wrote: "Most persons in active business, and especially dealers and middlemen, do not try to look far ahead".

Obviously, if both government and business are looking far enough ahead and planning in terms of social interest, Mr. Wilson of General

Motors can say with some justification, "what is good for General Motors is good for the United States". And the sooner and the closer business and government cooperate the better for everybody. That great difference which used to exist in the length of view ahead taken by business compared with government has long since ceased to exist. Indeed, quite often today, business is looking and planning far further ahead than government, plagued as it is by the interference of elections and politics.

Much of this changed attitude in business has been due to three factors: (1) the teaching of business administration, especially by the case discussion method at Western, Harvard and other universities; (2) the considerable research in this field, usually financed by generous grants from business; and, also, (3) the grabbing by business of the best brains of each year's graduating class. With so much money and brains devoted to the study of business administration by graduates, post-graduates and management itself, there has been in the past twenty years progress so fast that it might almost be called a revolution. We have learned that the art of administration can be taught and learned. More professors in more universities are studying and teaching this subject and the art (or science) of administration is the same whether practised in business or in government.

Similarities

The similarities between government and business administrative problems are so numerous that the experience of each can be helpful to the other.

In *organization,* for example, both business and government use fundamentally a similar form of committee system despite superficial differences in name. Equivalent to the Prime Minister and Cabinet are the chairman and board of directors. Co-ordinating decisions throughout the various departments of a big corporation are innumerable executive committees, just as in the civil service there are interdepartmental committees, and, within departments, directors' committees and meetings of chiefs, all working to administer the decisions made at the top level.

Both business and government use *service departments.* Nowadays big business has grown so big that, in addition to trading departments, its management, just like the Minister, needs service departments such as planning and development, public relations, the economists' office, personnel and so on. Apart from the fact that each of these service departments enjoys a larger budget than is customary in government, there is little difference. There are the usual panics when the President or Minister wants a report and there are the constant economy campaigns because, as in government, such service departments are not under pressure to make a profit. Indeed, it may be slightly easier to

make a loss, to spend in excess of the annual budget, in business than in government.

The third main similarity is in *personnel administration.* In big business the managers are no longer owners. They realize that the strength of an organization, whether it is business, government or university, lies in its personnel. All sorts of complicated words are now used in teaching business administration to get over the old idea that a team working together can be stronger than the sum of the individuals. Therefore, by such jargon as "motivation" and "communication" is meant the inspiration of staff and the handing down from top to bottom of directives so that all can pull together.

How do you achieve a good team spirit? There are four main methods in business and the first three are all reproduced and identical in government service. These four main methods are:

(1) Selection and placement policy;
(2) Training policy;
(3) Promotion policy;
(4) Employee benefits policy.

Whether in government or business, the personnel department sets out to recruit the best possible staff, to improve its efficiency by training and to keep it happy by promoting the natural leaders. Government personnel officers tour the universities as do their counterparts in business; they insert advertisements in newspapers; they organize staff training programs; where do the differences exist? Promotion in business is marked by graduation up from a metal wastepaper basket to a wooden wastepaper basket and finally to a leather wastepaper basket, as in the civil service; re carpeting, provided you have reached the rank of director and above, you are even allowed to choose your own colour. This must sound familiar to civil servants. Big business has its problems of red tape and wasted time in committees just as serious as those in the civil service.

Differences

What then are the differences? These, like the similarities, are many. Financial control by the simple criterion "does it make a profit?" and the trade union problem are such obvious differences and have so little counterpart in public administration, that they are *not* discussed here. I have already mentioned as part of motivation of personnel in business that there is a fourth method in addition to selection, training and promotion, namely, employee benefits. The financial spurs to greater efforts offered in business are denied the civil servant. Such benefits may take various forms. There may be a simple cash handout at Christmas on the basis of the past year's income; the staff knows

that this annual bonus is based on the size of profits and is thus directly interested in increasing profits. More complicated schemes of motivation combine company handouts to encourage staff savings. Many companies allow their employees to allocate five percent or more of their income for purchase of shares in the company and match the employee's contribution with an equivalent amount. In Sears, for example, through such a scheme employees owned, in 1954, twenty-six percent of the company's stock. These employee benefits cost the company that year over $94 million, $727 per regular employee or an additional 38 cents an hour.

Some businesses make such a fetish of employee benefits that they dominate their whole staff policy—recruitment, training and promotion. Candidates for employment are psychologically tested and only the "money-hungry" are accepted on the theory that payment in the company is based on results and a "money-hungry" man will exert himself more. A big insurance company, for example, recruits and stimulates in this way the staff in its sales department. Here we have a major contrast with government. Which is right? Which produces the winning team? Is some form of employee benefit scheme desirable in government, necessary to achieve greater employee efforts, or to supplement pensions in the face of inflation? Has government a substitute for profit-making as an incentive to employees, and is it adequate?

Presidents v. Deputy Ministers

This contrasting method of paying and stimulating the rank-and-file of business naturally suggests a second contrast between administration in government and business; that government is democratic, while business remains, despite reforms, essentially autocratic. In government an official speaks his mind; in business he waits to hear what his superior says and then says something similar. In business between the very few at the top and the vast mass of wage earners there is a huge gap, whereas in government there are far more in the middle-class.

The autocratic nature of business is best shown in the salary and bonus scales. In business these financial gains increase geometrically, especially as you reach the top, compared with the steady arithmetic advances of the civil service. Consequently, compared with presidents and vice-presidents, the top civil servants find themselves at a relative disadvantage. The British have got over this by awarding their top civil servants Royal honours; the M.B.E., O.B.E., K.C.B., K.C.M.G., etc. In Canada deputy ministers have just to be motivated by the satisfaction of service to the community—or the prospect of a big job in business on retirement.

Corresponding to this huge discrepancy in their rates of pay, is there a corresponding difference between the president and the deputy minister in their abilities as administrators and in their willingness to accept new ideas in administration? Last year the Business Quarterly published a provoking article "Has the President Reached the Top?"[1] which suggested that in many businesses the limiting factor was the chief executive. Each summer Western University runs a course for senior administrators, not only from business but also from the government service. Particularly those from business complain, once they have finished and are full of new ideas about administration, that they will have difficulty applying their new ideas because of the reactionary attitude of top management. Admittedly, business has become more and more democratic, particularly in North America where so many of top management have been recruited from the ranks, but inevitably many presidents' ideas were formed years previously and may be out of date. Hence the need, said this article, for management never to regard itself as having reached the top but also to go back to school just as the junior executives that it sends on courses—and always to be open to new ideas.

Despite their more democratic nature, are our public services really as receptive to new ideas in administration as business, where suggestion boxes since 1880 have brought handsome money rewards to those suggesting innovations? Have the public services adequately exploited the vast potential of administrative ideas that exist not only at top level but in all its staff, especially in its new recruits? In the past 5 years, since the Suggestion Award Board of Civil Service was established in November, 1952, nearly 1,300 awards totalling over $29,300 in value have been presented — and produced estimated savings of $354,000. During the last fiscal year, 5,475 suggestions were submitted. This represents 18.0 suggestions per 1,000 employees. This total is quite low compared with the Federal Government Agencies in the United States which have 132 suggestions per 1,000 employees.

But good administration involves not only getting new ideas and listening to them but also putting them into practice. In the public services, is it possible to get immediate and adequate action as a result of the new ideas? Mr. H. A. B. McCracken, Executive Secretary of the Federal Suggestion Award Board, writes: "One of the main factors which has hindered further participation by employees in the Programme is the long delay which occurs from the time the suggestion is first submitted to the time the suggestor hears whether his suggestion has been accepted or rejected". Do ideas get handled as expeditiously as

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[1]Business Quarterly, Fall, 1956: Vol. XXI, No. 3.

in business? Business men constantly complain of the difficulty of getting decisions from government departments while they allege that in their own business organization an idea or request is usually considered and then either rejected or acted upon very quickly. Is this true in government? Certainly our students would lodge against government administration just such a complaint about tardiness in getting an answer when it comes to jobs. Whereas a company seems able to make up its mind in a matter of days whether or not it wants to employ a graduate, to make up the governmental mind takes months.

Special Problems in Business Administration

Service departments in government are very similar to service departments in business, but not always identical. Public relations, for example, in business have a wider influence and responsibility than they are allowed in government or in crown corporations. Essentially, in business, the job of the public relations officer is twofold. First, he must project his company to the world through every medium available to him—newspapers, radio, television, films, public speakers and so on. But, in addition to this responsibility of projecting his company to the outside world, he has a second responsibility, namely, to sit in on the highest executive meetings and ensure that the company's policies and actions are conceived and administered so as to impress public opinion as favorably as possible. In consequence he has considerable influence in the formulation of company policy, often acting as the company's conscience and influencing actions along the lines suggested of taking a broader and longer view of the company's social responsibilities to the community and country in which it operates.

When a company faces special problems in business administration where there are conflicts between profits, economics and politics, the opinion of the public relations officer carries considerable weight, for example, in a question of plant location. Many subsidiary plants in Canada operate at substantially higher costs than those of their main U.S. plant even when the Canadian tariff is added. Yet the business decision is to locate and to continue to produce in Canada. Why? Obviously immediate profits are not the only consideration otherwise the Canadian operation would be closed down. Admittedly, there is always the important factor that the plant in Canada often prevents a competitor from establishing himself in the Canadian market. But in reaching a decision in this sort of problem the businessman listens also to the advice of his public relations officer about the advantages from "Canadianizing" his operation as much as possible. Another example of this problem of conflict between immediate and long-term profits is that considered each year by the board of directors, how much should

be contributed to charity and to which charities. Again the public relations director in business helps management both to broaden and lengthen its viewpoint, so that business tends to be now looking ever further ahead, not only paying for the education of engineers but even encouraging employees to increase their families with their own company baby bonus.

In government the public relations officer is not allowed any such position of importance or influence, partly because the politician is regarded as the government's public relations officer to the public and partly because information is regarded more as a routine job than an administrative one. He is seldom brought in to discuss the formulation of policy and never has sufficient status to modify it. Are politicians adequate as public relations officers for our extensive and complicated government services of today? How can they know the facts? How can they be persuaded to look far enough ahead?

Certainly, giving public relations officers greater powers might revolutionize our government offices. Compare that delicious receptionist that greets you in a big company from behind her flowers with the assistant behind the grill at the post office! The reason for the difference is the different relative importance of the public relations officer in the two organizations. Here is a field where government public relations officers should be given more scope.

Conclusion

Essentially routine business administrative problems are solved relatively simply by bowing to financial controls. Today, with computers, more and more decisions can be reduced to mathematical formula, fed into the computer and the machine will give immediate warning when jobs are not being done satisfactorily. Is such procedure possible in public administration where the criterion of action is politics rather than economics? A computer can only decide between figures not between policies, the little not the big decisions. However, the more routine problems can be reduced into mathematical terms the more simple will their solution be and the more will computers be able to help the public administrator. But, as business gets bigger, more and more of its top level decisions are also political and moral, identical often with those faced by deputy-ministers. Hence there is a constant need for both business and government to cooperate with and learn from each other.

Business Responsibilities

"There is an altogether too prevalent notion that education is not entirely essential to one's spiritual or material wellbeing, that it is a stage through which people pass and that it need not cause any permanent harm. You get over it like measles during childhood and having had the disease you are rendered immune from further attacks . . .

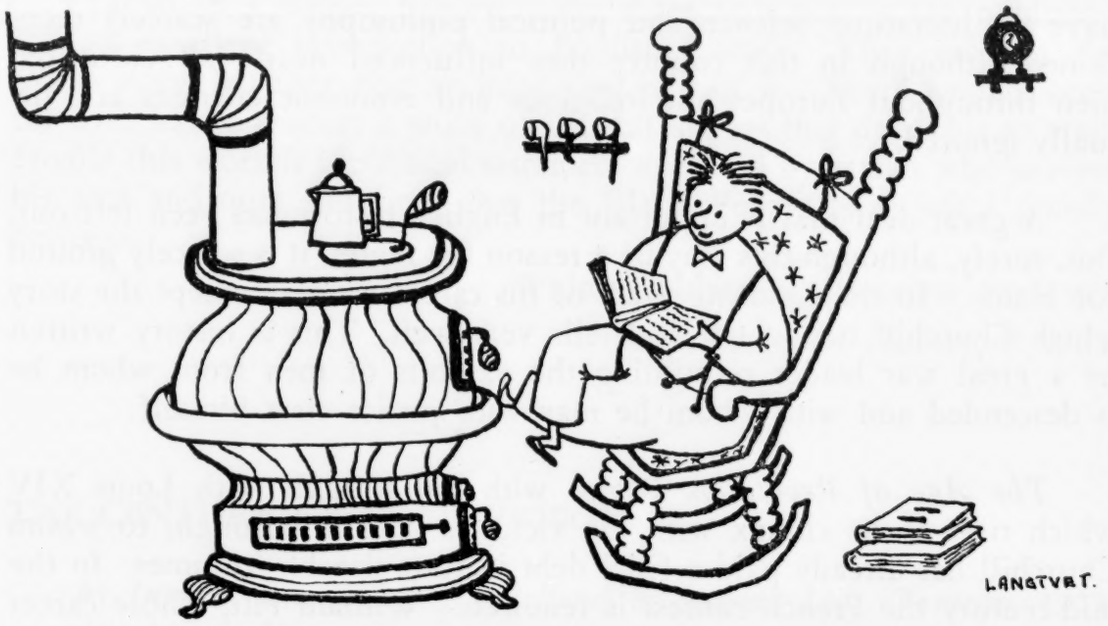
"Education is a continuing process which should be continued throughout adult life and Business has a responsibility to see that educational activity is continued by those in the higher ranks of the business community. Most successful businessmen must be men of broad concept with a knowledge of many subjects ranging from the humanities to costs. On the other hand, business has a narrowing influence due to the required specialized training necessary for success. Business has a responsibility in fostering an executive's desire to continue his education during his business life . . .

"The university graduate starts his business career with a certain advantage over the self-educated individual. The self-educated man may not have grasped some of the more important subjects as fully as the entrant into business who has had the opportunity of attending university.

"The advantage which the university graduate has may, however, only be of a temporary nature, for his progress in the business world will come—not by reason of any degree that he may have obtained—but by reason of the use which he makes of his talents.

A university degree of itself is not a key which opens the door to success. Business requires thinking people and it is from the university ranks that the majority of flexible, thinking people should be found. Business, consequently, has some responsibility to see that the universities have adequate facilities, should share this responsibility with governments and the student body, and ensure that the universities train people to think, to evaluate, to form intelligent opinions, and to develop latent leadership characteristics."

—James Stewart, Chairman, Canadian Bank of Commerce.



BOOK REVIEWS

A HISTORY OF THE ENGLISH SPEAKING PEOPLES VOLUME III: THE AGE OF REVOLUTION

by Winston S. Churchill. McClelland and Stewart, Ltd., 1957. 402 pp. $6.50.

With the publication of Churchill's third volume the strengths and limitations of his panorama of English history at home and abroad are now clear. We are being told the story of the political evolution of the English people and their imperial expansion abroad, mainly by means of the deeds of the great political and military leaders. There are kind words for the sturdy character of the common folk, but their story is not here.

The index to this volume has no reference to Alexander Pope or Jonathan Swift. There is only a passing remark about Isaac Newton and the Royal Society, and there are but two references to John Wesley, one of them in connectcion with the foundation of the Georgia colony. It is indicative of his emphasis that Churchcill devotes less than a page to the Industrial Revolution while allotting a chapter to events in France between 1789 and 1793. In other words in this work the English people

have no literature; science and political philosophy are scarcely mentioned although in this country they influenced nearly all cultivated men throughout Europe; and religious and economic changes are virtually ignored.

A great deal that is important in English history has been left out. But, surely, although this may be a reason for regret, it is scarcely ground for blame. In these closing years of his career we may accept the story which Churchill has to tell and tells very well. This is history written by a great war leader recounting the exploits of men from whom he is descended and with whom he may with justice class himself.

The Age of Revolution begins with the struggle with Louis XIV which rises to its climax with the victories of Marlborough, to whom Churchill has already paid a filial debt in four sizeable volumes. In the mid-century the French contest is renewed. William Pitt, whose career parallels in many ways that of Churchill himself, snatches victory from defeat only to see the Old Empire crumble into ruin while in India a new Empire is brought to birth. Churchill's American descent and his pride as an architect of the American alliance explain the full and sympathetic description of the birth of the United States. The volume closes with the struggle with revolutionary France and Napoleon in which Nelson and Wellington are the stars.

Throughout this volume we are reminded, as we were in the first two, that History is Philosophy teaching by example. The most personal passage in the present volume is the bitter comparison of the Tories of 1696-99 with the Tories of 1932-37. "In each case short-sighted opinions, agreeable to the party spirit, pernicious to the national interest, banished all purpose from the State and prepared a deadly resumption of the main struggle." There is, to be sure, a foot-note pointing out that words were written early in 1939, but the statement is allowed to appear in print, a warning, it would seem, to his readers and his party.

On the whole this a less stirring volume than the first two, somewhat strangely so in view of the stirring events which are its subject. Volume One was a brilliant *tour de force* compressing into one book the history of a millenium and a half and enlivened by an impish wit that refused to reject picturesque legends simply because they were not true. The second volume was made notable by Churchill's wrestling with the ghost of Cromwell which refused to lie quietly in its ignominious grave. The author, perhaps, is too much a child of the eighteenth century himself to give us the thrill of discovery as he searches for the significance of events with which he has been long familiar. Perhaps the story, as he tells it, is a little too familiar to us, also.

Taken as a whole, however, the three volumes so far published are an excellent introduction to English history. They are not the whole story, but they give an important part of it. There has not been for over half a century a work of general appeal that does this so well. Finally this work is a political testament executed by a man who surveys his past and ours and finds that the Island People have left a goodly heritage.

Walter Balderston, Associate Professor
Department of History, U.W.O.

THE CENTURY OF THE SURGEON

by Juergen Thorwald. McClelland & Stewart Ltd., Toronto, 1957. 432 pp. $6.50.

This book is not a business history, although businessmen may be interested in it as an historical novel. The development of surgery for the last hundred years or so is presented most readably and dramatically within the framework of the life of a fictitious physician-historian Dr. Hartmann, who gathered the information during his world-wide travels. The author discusses primarily the development of anaesthesia and the beginnings of antisepsis, and also reviews the development of surgery on certain areas of the human body in more detail, such as urinary bladder, abdomen and heart.

This organization allows a more personal and rather feeling discussion of the subject than one finds in an objective account of the history of surgery. In contrast to the modern historical novel, the bulk of the book is taken up by the description of the development of surgery while the story of Dr. Hartmann's life represents only a minor part.

The facts represented in the book are accurate and based on a long list of references. The illustrations are informative and dramatic. A severe critic might, however, justifiably find fault with the presentation of a one-sided view on the subject. The development of surgery—as seen through the eyes of Dr. Hartmann—appears to be an endless battle of a very few inventive and original surgeons against the inert mass of members of the medical profession, their prejudices and ignorance. While we cannot discuss this point in detail, suffice it to say that there are many other factors not here represented that determined the development of surgery and medicine in general.

I. H. Upmalis, M.D.
Faculty of Medicine, U.W.O.

LABOR IN A GROWING ECONOMY

by Melvin D. Reder, 1957. 534 pp. $6.50.

ELEMENTS OF SUPERVISION

by William R. Spriegel, Edward Schulz and William B. Spriegel. 2nd edition, 1957. 349 pp. $6.00.

WORK SAMPLING

by Ralph M. Barns. 2nd edition, 1957. 283 pp. $7.95. All three published by John Wiley & Sons Inc., New York.

Professor Reder has primarily written his book for the student of labour economics and for that reason it must be considered a textbook. However, the author has devoted the first half of his book to an asorbing study of the history of the formation and birth pains of organized labour in America. The result of this study leads to the logical conclusion that the AFL-CIO merger is another step in the evolution of American labour history, not just a haphazard isolated event.

In the second half Professor Reder points out the basic differences in economic interest of the employer-worker relationship. While much of what is written in this second half on the economics of wages, employment and income has been said before, the author has achieved a concise analysis backed by concrete facts and figures.

Elements of Supervision is the second edition of this book originally published in 1942, but with a few noteworthy additions. The inclusion of chapters on the psychology of interviewing and on mental health shows the awakening in management, during the last 15 years, to the fact that solving a man's emotional problems is often the key to the actual physical problem.

While Professors Spriegel and Schulz in no way try to solve all supervisory problems, they do give the supervisor a fuller realization of the scope of his responsibilities. The book will most probably have its main use as a reference for ideas and for methods of approach to

problems such as promotions, transfers, wage administration, absenteeism and so on.

The reprinting of the highly specialized book *Work Sampling* so soon after the first edition (1956), gives an indication of the contribution Professor Barns has made to this study.

This book covers the chapters on statistical and quality control in *Elements of Supervision* with a more detailed and professional outlook than Messrs Spriegel and Schulz. Professor Barns gives a thorough explanation of work sampling techniques and by actual case histories illustrates their practical application. Continually emphasized throughout is the fact that as automation takes over the manufacturing process it is the machine not the man that has to be controlled and idle machine time becomes an important factor in total costs. However, until this age of machine dominating man arrives, the problem of wage incentives and indirect labour allowances is ever present and has been well taken care of in the book.

Canadian manufacturers might learn much from this study of work sampling techniques and it is also recommended for use by industrial engineers and college students interested in this field.

David Morley

School of Business Administration, U.W.O.

CONFERENCE ON SALES MANAGEMENT

Michigan Business Papers, Number 34. Edited by Stewart H. Rewoldt. University of Michigan, 1957. 100 pp. $4.00.

This publication should be read only by those with a general interest in marketing and a particular interest in sales management. Consisting of five papers and a panel discussion from the fourth Conference on Sales Management organized by the University of Michigan on March 29, 1957, it has a wide range in the subject matter and quality of the articles.

The first paper, *"Adventure into People's Minds: Finding a Personality for the E-Car"*, given by David Wallace, Manager of Edsel Marketing Research, is a frank and interesting description of marketing planning, research and strategy considerations with which top Ford Motor Company executives wrestled when planning the introduction of the new Edsel. In spite of the fact that marketing trade papers recently have been carrying a barrage of publicity blurbs and "inside stories" on the Edsel, this additional report is worth reading.

"Product service, the fourth dimension of marketing," by E. A. Anthony, consultant, Consumer Products Service, General Electric Company, is the second paper. To Mr. Anthony, product service is an integral "fourth part of marketing". The first three, he says, are (1) "the physical product with its characteristics, its features, and its pricing," (2) "market", and (3) "selling". The paper describes different attitudes that companies have toward product service, and discusses organization of product service, renewal parts, pricing, customer complaints, development of service information, training and warranties. This paper will probably be of interest to those with specific responsibility in this area, but it does not do a convincing job of putting across the idea that product service is an integral part of a company's total marketing plan.

The third paper, *"Talking ourselves into communication crises,"* by William M. Sattler, associate professor of speech, University of Michigan, is a worthwhile review of several fundamentals of communication.

W. J. E. Crissy, President, Personnel Development, Inc., is a psychologist who speaks convincingly and interestingly in the fourth paper on *"Developing the Sales Man as an Individual"*. He covers a variety of significant aspects of the subject. His article concludes with a useful "format for personnel problem analysis" which should help sales supervisory persons in dealing with salesmen.

"Approaches and policies in handling problem situations in the management of salesmen" is an edited transcript of a panel discussion complete with introductory statements by an assistant director of sales, a staff psychologist and a sales personnel relations division director. The central theme of the short talks and subsequent discussion is how to keep salesmen happy, satisfied, and productive. Some of the material in this section is trite.

The concluding paper by H. L. Porter, Manager, Sales Training and Sales Supervisory Development, Standard Oil Company (Indiana) is en-

titled *"How to co-ordinate training efforts in developing each sales person."* It gives a broad textbook-type outline of the fundamentals of training sales personnel ranging from new employees to managers.

Don Thain, Assistant Professor,
School of Business Administration, U.W.O.

CANADA—TOMORROW'S GIANT

by Bruce Hutchison. Longmans, Green & Co., Toronto, 1957. 332 pp. $4.95.

With this book the enterprising publisher sent me a Douglas fir. Having been carefully planted, dutifully watered and appropriately surrounded with a little protective tariff wall of stones to prevent cruel competition, this three-year-old is already on the way to being a giant of tomorrow's Canada. Meanwhile Bruce Hutchison's latest book takes us by car across the Canada of 1956, stopping here but mostly there to reminisce about the hard-pressed heroes of Canada's pioneering past, most of them forgotten by present-day Canadians.

Inevitably any book attempting to comprise Canada's whole, past, present and future, from coast to coast, neglects your own hometown and favorite Canadiana; it tells indeed more about the author, his tastes, hopes, fears, habits and education. Bruce Hutchison rushes through Toronto and dawdles dreaming with eyes half-closed in Montreal. He dismisses London "the old farm town now ringed with industries," yet potters around each of the many maritime universities. So much time is spent discussing memories with Newfie fishermen and idle miners in the Northland that we are rushed past dashing rivers and over huge ore bodies without even a nuclear magnetometer. Rather than in Canada's tomorrow, Bruce Hutchison seems interested in Canada's past, in the battlefields of 1812 rather than the new Niagara factories, in the shades of Dafoe and Riel rather than the new industries on which Winnipeg's future depends.

Yet maybe Bruce Hutchison is far more right than the economist and the statistician. He has gone behind the factories and figures to the men and women of Canada, pointing up their local and historic differences to weld them in a whole — "something strange, nameless and profound moves in Canada today. It cannot be seen or labelled, but it can be heard and felt—a kind of whisper from the far away, a

rustle as of wind in prairie poplars, a distant river's voice, or the shuffle of footsteps in a midnight street. It is less a sound than a sense of motion. Something moves as it has never moved before in this land, moves dumbly in the deepest runnels of a collective mind, yet by sure direction toward a known goal. Sometimes by thought, more often by intuition, the Canadian people make the final discovery. They are discovering themselves."

METALS AND MEN

by D. M. LeBourdais, McClelland & Stewart Ltd., Toronto, 1957. 416 pp. $8.50.

Unlike Bruce Hutchison, who travelled with the sun from East to West, author LeBourdais moves across Canada from West to East, but equally presents the present in perspective with the past; within his mining field, he also gazes further into the future. Starting with the gold rush into the Cariboo district of British Columbia a hundred years ago and coming through nineteen chapters of the Kootenays, "Chicamen Stone", Cayuse Country, The Klondike, Sudbury Basin, Cobalt, Porcupine, Kirkland Lake, Noranda, East of Rouyn and north of Sixty, the author eventually reaches, via Asbestos and the Maritimes, the latest uranium chapter and the iron ore developments in New Quebec and Labrador.

This history of Canadian mining reads as thrillingly as a novel provided the layman skips some of its adits and geology. Here are the epics of Steep Rock and of Franc Joubin no less great because they happened in our day than the struggles of the climbers up the Chilkoot and White Passe on their way to the Klondike. Forty pages of pictures, both in colour and half-tone introduce us to both notables and notorious in Canadian mining and also the terrain on which they made and lost their millions. Maps and sketches of concessions point up some of the details.

A complete record of mining activities across Canada and across time would be impossible in any single volume, but D. M. LeBourdais has spent most of his life studying Canada and writing about it, also believing, like Bruce Hutchison, that the culture of a nation is not applied on top like an icing but rises from the way its people earn their living and exploit their environment. Here he has put on record the

contribution of mine-finders and mine-makers to the development of Canada in a way which should make him read not only by every investor in mining stocks but also by every Canadian interested in Canada's greatest industry.

THE WORLD DOLLAR PROBLEM

by Sir Donald MacDougall. MacMillan Company of Canada, Toronto, 1957. 622 pp. $8.50.

Thinking Americans who read this book will discontinue investing in Canada. From the wealth of his experience as Churchill's wartime statistical adviser and subsequently as O.E.E.C. economics director, Sir Donald MacDougall concludes that U.S. dollars are destined to become chronically scarcer and will consequently appreciate in terms of all other currencies including the Canadian dollar. Having reached this conclusion on future dollar shortage at the end of sixteen chapters, 47 chapter-long appendices, and literally thousands of footnotes, mostly statistical, Sir Donald has some thought-provoking views on what should be done about it.

Even if the U.S. continues its generous gifts abroad and more dollars are invested abroad privately, even if U.S. commercial policy were progressively liberalized, "under which we include not only the level of the tariff but also the escape clause provisions, customs regulations, quantitative import restrictions, shipping legislation, the 'Buy American' Act and all the rest", the rest of the countries of the world will be forced by the continuing dollar shortage either to deflate their own economies or to continue currency or trade discrimination against the dollar. The dollar shortage is thus going to impose Hobson's choice with a vengeance. "The non-Communist world can hardly afford to allow a mere tendency to imbalance between the U.S. and the rest to slow down its rate of growth. There are obvious political and military reasons, quite apart from the potential emergence of the U.S.S.R. as a major competitor in the world market for manufactures."

The only practical alternative, however obnoxious, appears to be world-wide discrimination against the dollar. Canada, which, helped by the flow of U.S. investment and Marshall Plan offshore purchases, has worked such post-war wonders in re-orienting her trade, will be

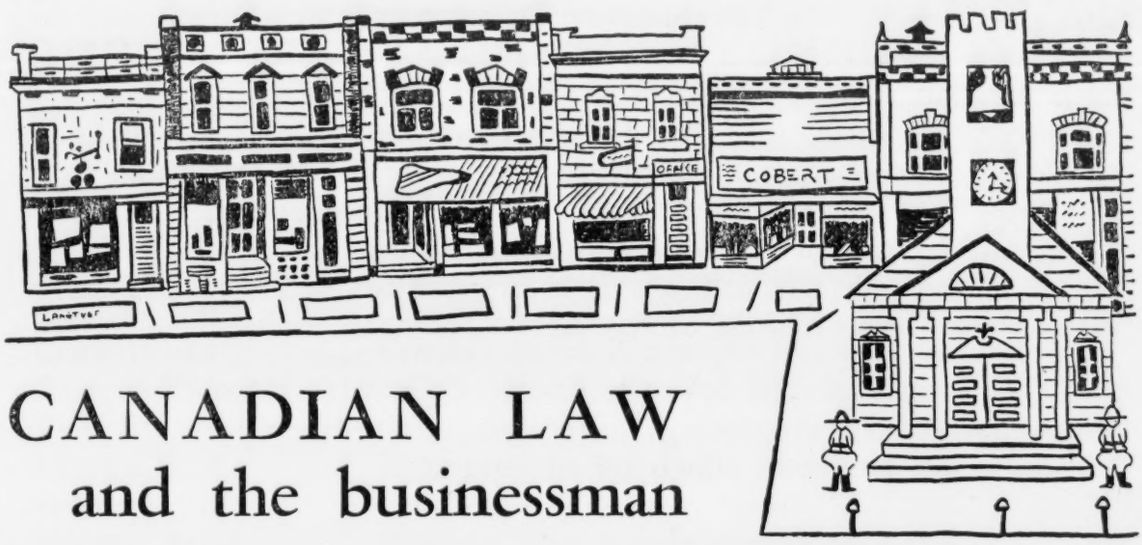
equally hit with U.S. from the world's discrimination against dollar goods.

"Suppose that Canada is in global balance but, as is quite likely, in deficit with the U.S. and in surplus with other countries. If she does not demand dollars she may avoid discrimination against her exports and maintain her total receipts of foreign currencies and so her expenditure on imports from all sources. But she will have to make a heavy cut in her imports from the U.S. which it may be hard to compensate by increased imports from elsewhere (because they are inferior substitutes or more expensive); and such a switch will involve discrimination against her major trading partner which, even if it is considered administratively and politically practicable, may provoke retaliatory restrictions against her exports to the U.S. and frighten off some of the U.S. investors on whom she depends for so much of her capital investment. If, on the other hand, Canada does demand dollars from other countries her exports will be discriminated against (even though she is not in global surplus like the U.S.) and her total foreign earnings reduced. She will have, in some way or other, to reduce her imports, but this can at least be done in a non-discriminatory manner.

"The choice facing Canada may not be an easy one (and the fact that she will have a problem is one reason for regarding her as part of the rest of the world rather than of the U.S. in our main analysis). But past experience suggests that she (as well as other countries now in the dollar area) will decide to demand dollars, and she will quite probably get substantial amounts, at least if her exports are in sufficiently strong demand."

Sir Donald thus completely vindicates Hon. Diefenbaker's demand for a 15% switch of Canadian purchases from dollar to sterling goods. His book is a rich mine with many seams of pure gold, platinum, even uranium and precious stones. Many of these treasures are in the numerous footnotes. Consequently it requires attentive reading but those persistent and scholarly will feel well rewarded. An excellent index helps to make this long book, not only a major contribution to international monetary theory and trade practices but also an invaluable reference book on current statistics, used effectively to prove his arguments.

(Continued on Page 412)



CANADIAN LAW and the businessman

John P. Robarts, Q.C., M.L.A.

TWO recent decisions, one of The Supreme Court of Canada, and the other of the The Supreme Court of Ontario, have done much to clarify the trust fund provision of the Mechanics' Lien Act of Ontario. These decisions are of great significance to any lending money or extending credit to builders and contractors on the security of assignment of money payable or to become payable under the contracts of the borrowing contractors or builders.

Trust Fund Provisions

The so-called "trust fund provisions" of the Mechanics' Lien Act of Ontario is embodied in Section 3 of the Act. They provide that all sums of money received by a builder, contractor, or sub-contractor on account of the contract price, shall be and constitute a trust fund in the hands of the builder, or contractor, for the benefit of the subcontractors, workmen and persons who have supplied material on account of the contract, and the builder, or contractor is constituted a trustee to hold such sums until all workmen, subcontractors, and suppliers of material have been paid, and further, may not appropriate or convert any part thereof to his own use or to any use not authorized by the trust.

The case decided in The Supreme Court of Canada (1955) S.C.R. Page 694, *Minneapolis-Honeywell Regulator Company Limited vs. Empire Brass Manufacturing Company Limited,* arose in British Columbia, whose Mechanics' Lien Act is, for the purpose of this discussion, practically identical with that of Ontario.

Minneapolis sued "A", a plumbing and heating contractor, who supplied and installed products of Minneapolis, and also sued Empire Brass, who had taken assignments of A's book-debts, for an accounting

of money held in trust under the provisions of the Mechanics' Lien Act of British Columbia, similar to those set out above. "A" had assigned its book debts to Empire Brass before contracting to buy and install from Minneapolis. Minneapolis had sued "A" and recovered default judgment, and by this action sought to obtain money from Empire Brass which Minneapolis claimed was held in trust for suppliers and workmen, under the provisions of the Act.

Five Judges of The Supreme Court of Canada sat on the appeal, which granted an accounting to the plaintiff, Minneapolis. Certain principles can be drawn which are of interest.

No Assignments

The first and most important point is that the trust fund cannot be reduced, affected or destroyed by assignment. In effect, the sums of money received by any builder or contractor on account of the contract price of the job do not become the money of the builder or contractor until all suppliers, labourers and subcontractors are paid, and, therefore, cannot be affected by an assignment. As was stated by Mr. Justice LeBel, in the Ontario case, *Bank of Montreal v Township of Sydney (1955) 4 D.L.R. 87,* "An assignor may not give his assignee a better title to property than he has himself".

The second principle decided was that the provisions of the Act created rights between the parties which were enforceable in a civil action. This is, perhaps, the most basic point in the judgments, as it was argued on behalf of Empire Brass that the breach of the Statute might be punishable by the penalties provided, but no remedy was granted to give a civil right to recover the actual trust fund if improperly paid out. This latter contention was rejected by the Supreme Court of Canada.

The practical effect of these decisions seems to be that before any contract monies can be taken under an assignment of book debts or contracts, a full investigation is necessary to ensure that the assignor has paid for all supplies and has paid all contractors, subcontractors and workmen who are entitled to protection as set out in the Act and explained above. Such precautions may prove to be onerous to the point of impracticability; nevertheless, failure to take such action can result in a court forcing repayment of money taken in satisfaction of a loan or advance made in good faith and for full consideration. This could have the serious effect of limiting credit which has been available in the past to many builders and contractors, on the security of monies payable from contracts. Time alone will tell the full effect of these interpretations of these Acts.

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Book Reviews continued

(Continued from Page 408)

THE TECHNIQUES OF EXPORT TRADE

by O. Mary Hill. Department of Trade and Commerce, 1957. 136 pp. $1.00.

Regular readers of "Foreign Trade" will welcome the collection, into this single volume, of the 33 separate articles each written by an expert which have appeared over the past year. All Canadian businessmen interested in expanding abroad their potential market will find some help and guidance, whether they are beginners wondering how to organize for export, work out export prices and research foreign markets or whether as experts they are assessing credit problems in foreign markets or the relative merits of branch plants or licensing manufacturing abroad.

This book has succeeded where Voltaire failed when he wrote "Please excuse the long letter: I did not have time to write a short one." Into only 136 pages it distills the wisdom not only of those Mr. Canadas overseas who are members of the foreign trade service but also of Canadian businessmen with long experience in foreign trade. It fills a long-felt want because there is a dearth of purely Canadian material on foreign trade. Only the Queen's Printer could afford to retail this up-to-date vade-mecum at this ridiculously low price. Yes: it is $1.00, not $10.00.

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APPRAISAL AND MANAGEMENT OF SECURITIES—*Douglas A. Hayes* — The Macmillan Company, New York, 383 pp., $6.00.

CITADEL MARKET AND ALTAR—*Spencer Heath* — Science of Society Foundation, Maryland, 259 pp., $6.00.

DIGITAL COMPUTER PROGRAMMING — *D. D. McCracken* — John Wiley & Sons, New York, 253 pp., $7.75.

FORESTRY TENURES AND TAXES IN CANADA—*A. Milton Moore*—Canadian Tax Foundation, 315 pp., $3.00.

CENTRAL BANKING IN MEXICO—*Virgil M. Bett*—Bureau of Research, University of Michigan, 231 pp.

A SWEDISH CASE STUDY ON PERSONNEL RELATIONS—*Sune Carlson* and *Per Ernmark*—Business Research Institute of Stockholm School of Economics, 67 pp.

MONETARY AND FISCAL POLICY UNDER UNCERTAINTY — *Karl-Olof Faxen* — Stockholm Economic Studies, 212 pp.

MODERN LIFE INSURANCE—*Robert I. Mehr* and *Robert W. Osler*—The Macmillan Company, New York, 746 pp., $6.90.

HOW TO SOLVE MANAGEMENT PROBLEMS — *Charles A. Cerami* — Prentice Hall Inc., 217 pp., $4.95.

WHY PRICES RISE—*F. A. Harper*—Foundation for Economic Education Inc., 119 pp., $1.50.

INSTALLING ELECTRONIC DATA PROCESSING SYSTEMS — *Richard G. Canning* — John Wiley & Sons, New York, 193 pp., $6.00.

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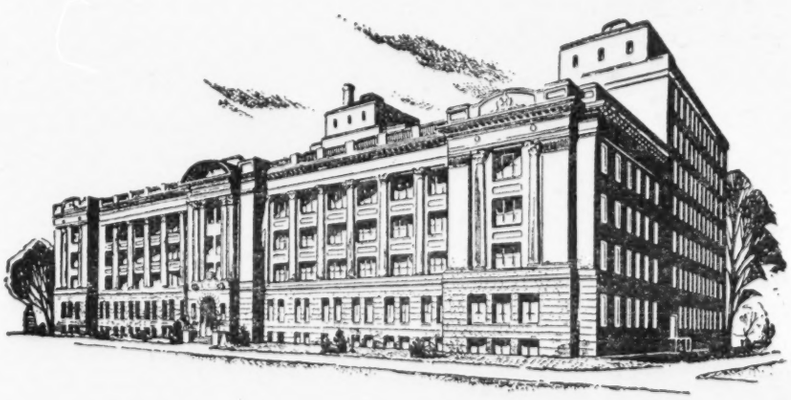

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